

PE  
4/1/02



02029885

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 6-K**

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of April 2002

**Telesystem International Wireless Inc.**

(Translation of registrant's name into English)

**1000 de La Gauchetiere Street West, 16<sup>th</sup> floor,  
Montreal, Quebec H3B 4W5 Canada**

(Address of principal executive offices)

**PROCESSED**

**APR 15 2002**

**THOMSON  
FINANCIAL**

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

20-F ☒

40-F ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Our Operating and Financial Review and Prospects is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Telesystem International Wireless Inc. Historical results may not indicate future performance. Our forward-looking statements are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. This review should be read in conjunction with our consolidated financial statements and accompanying notes.

#### OVERVIEW

We develop, acquire and operate wireless telecommunications networks. Since our inception in 1992, we have experienced significant growth and as at December 31, 2001, our continuing operations had 2,936,000 subscribers, which, based on our percentage ownership in our operations, represent 673,200 equity subscribers. Our continuing operations consist essentially of cellular operations in Romania, the Czech Republic and India.

Our continuing operations licenses entitle us to serve geographical areas that include approximately 89.3 million persons which, based on our percentage equity ownership in our operations, represent approximately 13.2 million persons as at December 31, 2001. As a part of our development strategy, we selectively consider strategic opportunities in the wireless telecommunications industry on an ongoing basis, especially in those geographic markets where we are already present, and at any time, may be engaged in various stages of discussion regarding potential development projects, mergers, acquisitions or divestitures in these markets. We seek to create distinct business units for each targeted geographic market and thereby facilitate the creation of strong local management teams, enhanced capital raising ability and operational synergies.

On June 22, 2001, our shareholders adopted a special resolution approving a consolidation of our Subordinate Voting and Multiple Voting Shares on the basis of one post-consolidated share for five pre-consolidated shares. As a result, the exchange ratio of the 7.00% equity subordinated debentures, the 7.75% convertible debentures and the Units and the number and exercise price of all stock options issued under our stock option plan for senior executives, key employees and directors have also been adjusted to reflect the share consolidation. All of our share data included in the consolidated financial statements and in this operating and financial review and prospects document have also been adjusted to reflect the consolidation as if it has always existed.

On July 27, 2001, we discontinued our specialized mobile radio and enhanced specialized mobile radio operations in Western Europe which were operated through Dolphin Telecom plc ("Dolphin") and its subsidiaries. Dolphin and certain of its subsidiaries took legal steps to reach a compromise with their creditors. The proceedings initiated by Dolphin and certain of its subsidiaries have no legal implications on us or our continuing cellular operations which are conducted by separate subsidiaries. In connection with recent financing activities, we have taken the necessary steps and obtained the necessary amendments to our credit and debt facilities to avoid cross defaults under our own financing arrangements from any defaults by Dolphin or any of its subsidiaries.

On March 31, 2001, we disposed of our interest in Americel and Telet, two of our Brazilian cellular joint ventures and on March 5, 2002, we adopted a formal plan to dispose of our remaining Brazilian cellular joint venture operations by way of sale of our equity interest within the next twelve months. The proceeds from the sale will mainly be used to reimburse corporate debt. The financial position and results of operations of the Brazilian cellular joint venture operations have been reported in our consolidated financial statements as discontinued operations. In July 2000, other partners and ourselves initiated common legal proceedings in order to invalidate certain changes to the ownership structure of Telpart, the consortium which holds our A-Band operations, effected by one of the partners which, we believe, contravened the general telecommunications law and breached certain agreements. We cannot predict the outcome of the legal proceedings which may affect our ability to exercise joint control over Telpart and to realize on our investment. Following the adoption of our plan to dispose of our Brazilian operations, those proceedings may cause disruptions in the governance of our minority-owned Brazilian affiliates prior to their estimated date of disposal. Accordingly, the Company may subsequently cease to account for Telpart as a joint venture.

The results of discontinued operations and the impact of the discontinuation on our consolidated financial statements are described in the period over period discussion of this operating and financial review and prospects.

Our cellular operations in Central/Eastern Europe are held through ClearWave, which was a wholly-owned subsidiary of ours until February 14, 2001. At such date, we issued 43.8 million Units each comprised of a ClearWave share and an option to exchange five Units for one of our shares for no additional consideration, by tendering five Units back to us at any time on or prior to June 30, 2002. We refer to this option as the exchange option. Subsequent to such transaction, we issued an additional 2.1 million Units. As a result of these transactions, our equity interest and voting rights in ClearWave decreased to 45.5% and 80.7%, respectively. In February 2002, we purchased back 33.7 million Units outstanding pursuant to an exchange offer. As a result, our equity interest in ClearWave is now 85.6%. (See "Sources of financing").

#### **Romania - Cellular**

Cellular services in Romania are provided by MobiFon, which holds a license for national GSM-based cellular services. ClearWave's equity interest in MobiFon increased from 54.7% to 58.9% in June 2000 and then to 63.5% in February 2001, following the sale by certain minority shareholders of their MobiFon shares to ClearWave. Our initial investment in Romania was made in November 1996 and commercial operations were launched in April 1997.

#### **Czech Republic - Cellular**

Český Mobil holds a license to provide GSM-based cellular services in the Czech Republic and launched commercial services in March 2000. ClearWave's indirect ownership in Český Mobil increased from 21.6% to 22.3% following capital contributions in 2001.

ClearWave's equity interest in Český Mobil is held through TIW Czech N.V., in which ClearWave owns 50.8% voting rights and a 23.4% equity interest (increasing to 24.2% upon funding of the remaining capital commitments).

#### **Corporate and Other**

We have a 30% equity interest in TIW Asia, which has a 42.2% indirect interest in Hexacom. Hexacom holds a license to provide GSM-based cellular services in the state of Rajasthan, India.

On December 24, 2001, we decided to dispose of our 49% interest in Enlaces, a paging operation in Mexico and have relinquished our joint control of the investment. On September 27, 2001, we disposed of our interest in W-Aura, a wireless internet operation based in Brazil.

In June 2000, following our successful bid for a third-generation mobile services license in the U.K., TIW UMTS UK Ltd., the bidding entity, was sold for a nominal amount. Concurrently with this transaction, we were granted an option to maintain a right of ownership of up to 9.9%. In July 2000, we waived 3.5% of our right for net proceeds of \$75.4 million. On November 8, 2000 we took the decision not to exercise the remaining option.

In April 2000, Hunan Huajia, our 14.7% indirectly owned Chinese investee sold all of its assets to China Unicom and Hunan Huajia has been liquidated. We also sold our 100% interest in CallMax, which held a national paging license in the Netherlands

Unless otherwise indicated, all financial data and discussion herein is based upon financial statements prepared in accordance with Canadian GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP, see Note 16 to our consolidated financial statements.

In accordance with Canadian GAAP, we consolidate revenues and expenses of each subsidiary that we have the ability to control. In this regard, we consolidate the results of MobiFon and Český Mobil. Investments, which are jointly controlled, are reported using the proportionate consolidation method. Under this method, our proportionate share of the assets, liabilities, income and expenses of the joint ventures are consolidated in our financial statements. In this regard, we proportionately consolidate the results of TIW Asia. Amerigel and Telet were proportionately consolidated up to March 30, 2001, the date of their sale and Enlaces up to December 24, 2001, the date we relinquished joint control. We also proportionately consolidate the results of Telpart, which fully consolidates the results of Telemig Celular and Tele Norte Celular, in each of which it has 51.9% of the voting rights and a 19.3% equity interest for Tele Norte Celular and 19.4% for Telemig Celular.

The results of our enhanced specialized mobile radio and specialized mobile radio operations which we refer to as SMR/ESMR and the results of our Brazilian joint venture operations have been reported as discontinued operations and are included in net loss but reported separately for current and prior periods. The consolidated balance sheet separately presents the current and long-term assets and liabilities related to the discontinued operations for current and prior periods. As the voluntary petition for administration by Dolphin occurred on July 27, 2001, the loss from SMR/ESMR operations to such date is reflected in the consolidated financial statements for the year ended December 31, 2001 and a loss from discontinued operations which we realized as a result of the deconsolidation of Dolphin due to its voluntary petition for protection from its creditors and the subsequent loss of control to the court appointed administrators. As a result of the adoption, on March 5, 2002, of a formal plan to dispose of our Brazilian joint venture operations, the losses from these operations for the year ended December 31, 2001 are presented as loss from discontinued operations and include both, the Amerigel and Telet loss from operations to March 31, 2001 and the realized gain on their disposal as well as the estimated loss from operations of our A-Band operations which includes a loss of \$15.5 million related to the estimated operating losses and costs from the measurement date to the date of disposal and a loss of \$27.2 million as a result of a partial realization of the cumulative translation adjustment account, as we estimate that such amount will not be recovered from the sale.

U.S. GAAP requires consolidation of subsidiaries controlled by us and the equity method of accounting for joint ventures and investees in which we have significant influence but not a controlling interest. U.S. GAAP only permits a component of an entity to be initially classified as discontinued operations in the financial statements encompassing the period in which the operations are classified as held for sale or disposed of. Consequently, the Brazilian joint venture operations are considered continuing operations for U.S. GAAP purposes whereas they are presented as discontinued operations for Canadian GAAP purposes as at December 31, 2001. Net loss and shareholders' equity under all of the above presentations are the same except for the additional accrual of the estimated loss from operations of our A-Band operations which will be recorded for U.S. GAAP in the first quarter of 2002.

In February 2001, as mentioned previously, we issued 43.8 million Units pursuant to an offer for sale under a rights issue to holders of our Multiple and Subordinate Voting Shares. We also issued 2.1 million Units as a partial payment on acquisition of MobiFon's shares held by non-controlling interest. We may redeem the Units if ClearWave sells the majority of its assets. The redemption price of the Units is equal to the issuance price of the Units plus a 30% annual return premium. Under a provision of the Units indenture which has subsequently been removed, holders of the Units would have been deemed to have exercised their exchange option if less than \$100 million of the Units, based on the issuance price, have not been exercised at June 30, 2002. At December 31, 2001, the Units were accounted for as equity under Canadian GAAP and we consolidated 100% of ClearWave as there was uncertainty at the date of issuance as to whether the holders would elect the exchange option or be deemed to elect the exchange option. Under U.S. GAAP, the Units are considered to be a hybrid instrument which has embedded equity and debt components. Such instruments are treated as liability under U.S. GAAP. As a result of the deletion of the above-described deemed exercise provision, the Units will be treated as a compound instrument under Canadian GAAP as of February 4, 2002, the date that the court order removed the deemed exercise provision, and thus will be accounted for similarly to the U.S. GAAP treatment until their expiry on June 30, 2002 at which date they will be accounted for as non-controlling interest and a gain on disposal of shares of ClearWave will be recorded in the event the holders of the Units do not elect to exchange them for our Subordinate Voting Shares.

On September 19, 2001, we completed an exchange of \$379.5 million principal amount at maturity of our 13<sup>1</sup>/<sub>4</sub>% Senior Discount Notes due 2007 and \$167.0 million principal amount at maturity of our 10<sup>1</sup>/<sub>2</sub>% Senior Discount Notes due 2007 for \$50.0 million of cash and \$194.8 million of 14% Senior Guaranteed Notes due December 30, 2003 which we refer to as 14% Notes and which resulted in the realization of a gain on forgiveness of debt of \$238.9 million.

Under Canadian GAAP, the gain on the debt exchange was determined as the difference between the accreted value of the original debt net of unamortized deferred issuance costs less the face value of the 14% Notes and the cash payment of \$50.0 million. Under U.S. GAAP, all future cash payments including interest and contingent additional payments relative to the 14% Notes, as specified by their terms, are netted against the realized gain on forgiveness of debt. Thereafter, all cash payments under the 14% Notes will be accounted for as reductions of the carrying amount of the 14% Notes and no interest expense will be recognized on the 14% Notes for any period between the restructuring and maturity of the 14% Notes. Furthermore, the gain on forgiveness of debt is an extraordinary item under U.S. GAAP and is excluded from the results of continuing operations.

We have retroactively adopted the new accounting recommendations with respect to accounting for foreign exchange gains or losses on monetary items and non-monetary items carried at market that have a fixed or ascertainable life extending beyond the end of the following year. Previously, these gains and losses were deferred and amortized on a straight-line basis over the term of the related items. As is required under U.S. GAAP, the new recommendations require that these gains and losses be included in the determination of net income as they arise. This change in accounting policy has been applied retroactively and has had the following impact on the financial statements: For 2001, total assets decreased by \$17.9 million, non-current liabilities related to discontinued operations decreased by \$8.4 million and deficit increased by \$9.5 million, loss from discontinued operations increased by \$4.6 million, and net loss per share increased by \$0.26. For 2000, total assets decreased by \$9.0 million, non-current liabilities related to discontinued operations decreased by \$23.9 million and deficit decreased by \$14.9 million, loss from discontinued operations decreased by \$2.9 million, and net loss per share decreased by \$0.19. For 1999, loss from discontinued operations decreased by \$20.8 million, and net loss per share decreased by \$1.42.

The consolidated financial statements have been prepared on a going concern basis, which assumes we will continue in operation for the foreseeable future and will be able to realize our assets and discharge our liabilities and commitments in the ordinary course of business. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we not be successful in our efforts to refinance debt, raise new financing and sell assets. (See "Liquidity and Capital Resources".)

#### RECENT ACCOUNTING DEVELOPMENTS

The Canadian Institute of Chartered Accountants (CICA) recently issued Section 1581, Business Combinations, which eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interest method is effective for transactions initiated after June 30, 2001. The remaining provisions will be effective for 2002.

The CICA also issued Section 3062, Goodwill and Other Intangible Assets. This new Section eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, and addresses the amortization of intangible assets with a defined life and the impairment testing and recognition for goodwill and intangible assets. We will apply Section 3062 beginning in the first quarter of 2002. Application of the non-amortization provisions of Section 3062 is expected to result in a decrease in net loss of \$2.8 million in 2002. Similar requirements were also issued in the United States under Statement of Financial Accounting Standards No. 141 and 142.

In 2001, the CICA issued Section 3870, Stock-based Compensation and Other Stock-based Payments, which will be effective in the 2002 fiscal year. Under Section 3870, stock-based awards granted to non-employees must be accounted for using the fair value-based method. The new standard also requires that stock appreciation rights and awards of stock options that call for settlement in cash be accounted for in an amount equal to the difference between the exercise price and the fair value of the stock at the date of the grant. Additionally, stock appreciation rights that call for settlement in stock will be accounted for either at fair value or in the same way as stock appreciation rights to be settled in cash. We are currently assessing the new regulations and the impact that adoption will have on our consolidated financial statements.

#### COMPOSITION OF OPERATING REVENUES AND EXPENSES

Cellular operations are the primary source of our revenues. Operating revenues include cellular and paging service revenues, as well as equipment revenues. Cellular service revenues primarily consist of variable airtime charges and in-bound interconnection charges and recurring fixed access charges. Equipment revenues consist of revenues from the sale of handsets. Equipment sales are not fundamental to our business. In fact, we generally offer handsets below cost, as an incentive for our customers to subscribe to our services, and these subsidies are accounted for as cost of revenues at the time of sale.

Revenues from airtime and roaming, including those billed in advance, are recognized when services are provided or when contracts expire in cases where services have not been used. Revenues from handsets and related equipment are recognized upon shipment except for those included in a bundled package with airtime, which are deferred and amortized over the term of the contract. When handsets, related equipment and access to network are bundled with airtime, the revenue for the airtime is measured at the price of the airtime on a stand-alone basis. When prepaid cards are sold to dealers, the revenue from the airtime is measured at the face value of the time sold. Commissions to dealers are classified within selling, general and administrative expenses.

Our operations are capital intensive and our operating costs are composed of significant fixed costs with relatively low variable costs that are a function of the subscriber base level. Accordingly, subscriber growth is critical to the improvement of operating margins and results of operations.

Operating expenses include cost of revenues, selling, general and administrative expenses and depreciation and amortization expenses. Cost of revenues consists of fixed costs such as leased line charges, recurring spectrum fees, site rental and network maintenance, including overhead, as well as variable costs such as cost of equipment sold, interconnection charges and, in the case of paging services, wages and salaries of operators. Selling, general and administrative expenses consist primarily of salaries, wages and related benefits for selling, general and administrative personnel, advertising, promotional expenses, bad debt and corporate, business development and other overhead expenses. Depreciation and amortization expenses consist primarily of depreciation recorded for our cellular and paging networks, as well as amortization of intangibles such as wireless license costs and goodwill.

The following discussions compare the results of operations for the years ended December 31, 2001, December 31, 2000 and December 31, 1999.

**Consolidated Results of Operations**

For the years ended December 31,  
(in thousands of dollars)

	2001	2000	1999
	\$	\$	[Restated] \$
Operating revenues	526,225	354,052	251,825
Total operating expenses	526,666	439,074	290,342
Operating loss	(441)	(85,022)	(38,517)
Interest expense	(121,257)	(95,689)	(73,945)
Interest income	6,417	16,894	1,848
Foreign exchange gain (loss)	3,577	(5,043)	(17,769)
Gain (loss) on investments	(10,741)	85,669	37,807
Gain on forgiveness of debt	238,940	-	-
Income tax	-	-	-
Non-controlling interest	45,894	63,519	15,935
Income (loss) from continuing operations	162,389	(19,672)	(74,641)
Loss from discontinued operations	(416,103)	(335,684)	(80,161)
Net loss	(253,714)	(355,356)	(154,802)

All subscriber numbers in the operating and financial review have been adjusted to reflect the discontinuation of Dolphin on July 27, 2001 and our Brazilian joint venture operations on March 5, 2002.

**YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000**

Revenues increased to \$526.2 million in 2001 from \$354.1 million in 2000. MobiFon's continued growth contributed \$64.7 million and Český Mobil, which was launched in early 2000, contributed \$109.9 million of the increase.

Total operating expenses increased to \$526.7 million in 2001 from \$439.1 million in 2000. Included in total operating expenses are cost of revenues, which increased to \$221.5 million from \$146.7 million due largely to the \$60.6 million increase in cost of service in the Czech Republic incurred in support of its revenue increase. Selling, general and administrative expenses decreased by \$18.9 million to \$183.1 million from \$202.0 million in 2000. Corporate and MobiFon contributed \$13.5 million and \$7.9 million to such decrease, respectively.

Depreciation and amortization increased to \$122.0 million in 2001 from \$90.4 million in 2000, an increase of \$31.6 million. A higher tangible asset base in Romania and in the Czech Republic contributed \$11.8 million and \$20.5 million to such increase, respectively.

Interest expense increased by \$25.5 million to \$121.2 million in 2001. Český Mobil accounted for almost all of the increase due to increased borrowings under its syndicated senior credit facility. Interest income decreased to \$6.4 million in 2001 from \$16.9 million in 2000, primarily due to the reduction in the amount of cash and equivalents held during the year at the corporate level. The foreign exchange gain was \$3.6 million in 2001, compared to a loss of \$5.1 million in 2000. The 2001 gain is a result of the appreciation of the Czech Koruna over the EURO, which accounted for \$6.8 million, partially offset by a \$3.8 million loss realized by MobiFon.

Included in the loss on investments is a loss of \$9.3 million from the sale of W-Aura, a \$5.9 million loss on our investment in Mexico, partly offset by a \$4.4 million gain realized from the sale of our assets in China. The 2000 results included gains on investments of \$85.7 million, which included a \$75.4 million gain realized for having waived our right to acquire 3.5% of the outstanding shares of 3G Holding for equivalent proceeds.

The gain on debt forgiveness of \$238.9 million relates to the exchange of our Senior Discount Notes for cash and 14% Notes mentioned previously.

We had available, as at December 31, 2001, net operating loss carry forwards in the amount of \$251.8 million of which \$96.2 million was from corporate and \$155.6 million from the operating subsidiaries. We may be limited in our ability to use these loss carry forwards in any one year due to the uncertainty of generating sufficient taxable income and, as a result, the related future tax asset has been fully provided for by the valuation allowance.

Our share of losses allocated to non-controlling interest amounted to \$45.9 million in 2001, compared to share of losses to non-controlling interests of \$63.5 million in 2000. The 2001 non-controlling interest is composed of our share of losses of subsidiaries attributed to non-controlling interest in TIW Czech, partly offset by our share of earnings attributed to non controlling interest in MobiFon.

As a result of the foregoing, income from continuing operations for the year ended December 31, 2001 was \$162.4 million compared to a loss of \$19.7 million in 2000, and the corresponding basic earnings per share from continuing operations was \$7.71, diluted earnings per share was \$4.05 compared to basic diluted loss per share of \$2.83 million for 2000.

Our loss from discontinued operations is presented net of income tax expenses (recovery) of (\$30.7) million, (\$13.0) million and \$8.5 million in 2001, 2000 and 1999, respectively. For the year ended December 31, 2001, the loss from discontinued operations amounts to \$416.1 million consisting of a loss of \$446.8 million and an income of \$30.7 million related to ESMR/SMR operations and Brazilian cellular joint ventures operations, respectively. The ESMR/SMR operations include an impairment charge for assets of \$264.8 million and a loss of \$4.0 million on deconsolidation of Dolphin on July 27, 2001. The Brazilian cellular joint ventures operations include a net gain of \$95.4 million from the sale on March 31, 2001 of our 16.3% equity interest in our two Brazilian entities, Americel, and Telet, for cash proceeds of \$153.3 million, which amount reduced cash used in discontinued operations in 2001. It also includes a loss of \$15.5 million related to the estimated operating losses and costs from the measurement date to the date of disposal and a loss of \$27.2 million as a result of a partial realization on the cumulative translation adjustment account as we estimate that such amount will not be recovered from the sale of the Company's A-Band joint venture operations in Brazil.

Net loss for the year ended December 31, 2001 was \$253.7 million compared to \$355.4 million in 2000. Basic net loss per share was \$16.29 compared to \$24.41 in 2000 based on average shares outstanding of 17.3 million and 15.6 million, respectively.

#### *YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999*

Revenues increased to \$354.1 million in 2000 from \$251.8 million in 1999. MobiFon's continued growth contributed \$73.6 million and Český Mobil, which was launched in early 2000, contributed \$34.0 million of the increase.

Total operating expenses increased to \$439.1 million in 2000 from \$290.3 million in 1999. Included in total operating expenses are cost of revenues, which increased to \$146.7 million from \$95.3 million due in part to the commercial launch of Český in March 2000. Selling, general and administrative expenses increased by \$69.1 million to \$202.0 million in 2000. Český Mobil's launch in early 2000 accounted for \$58.7 million of the increase.

Depreciation and amortization increased to \$90.4 million in 2000 from \$62.2 million in 1999, an increase of \$28.2 million. A higher tangible asset base in Romania accounted for \$13.7 million of the increase. The depreciation of the Czech Republic network assets commenced in 2000 and accounted for \$22.0 million.



Interest expense increased by \$21.8 million to \$95.7 million in 2000. MobiFon's and our higher level of borrowings under our credit facilities accounted for this increase. Interest income increased to \$16.9 million in 2000 from \$1.8 million in 1999, primarily due to the temporary cash surplus during the year at the corporate level, resulting from the issuance of shares and convertible debentures, as well as the proceeds from the waiver of our rights in the U.K. UMTS operations. The foreign exchange loss was \$5.1 million in 2000, compared to \$17.7 million in 1999. The 2000 loss is a result of the devaluation of the Leu in Romania, which accounted for \$6.5 million.

In connection with the entry of new shareholders in Hutchison 3G U.K. Holdings Limited, which we refer to as 3G Holdings, in July 2000, we received \$75.4 million and recognized a corresponding gain in exchange for waiving our right to acquire 3.5% of the outstanding shares of 3G Holdings. Included in the gain on investments is also the gain of \$4.4 million recognized from the sale of the assets of our Chinese investee and the recovery of a loan previously written-down, for an amount of \$6.2 million. The 1999 results included gains on investments of \$37.8 million.

Due to the uncertainty of generating sufficient taxable income, the tax benefit of our losses has been fully provided for by the valuation allowance.

Share of losses allocated to non-controlling interest amounted to \$63.5 million in 2000, compared to share of earnings to non-controlling interests of \$15.9 million in 1999. The 2000 non-controlling interest is composed of the share of losses of subsidiaries attributed to non-controlling interest in TIW Czech, partly offset by the share of earnings attributed to non-controlling interest in MobiFon.

As a result of the foregoing, loss from continuing operations for the year ended December 31, 2000 was \$19.7 million compared to \$74.6 million in 1999, and the corresponding basic and diluted loss per share from continuing operations was \$2.83 in 2000 compared to \$5.43 in 1999.

Loss from discontinued operations increased to \$335.7 million for the year ended December 31, 2000 compared to \$80.2 million for the prior year period. Included against loss from discontinued operations for the year ended December 31, 1999 are dilution gains of \$152.2 million. Excluding these gains, loss from discontinued operations was \$232.4 million for the year ended December 31, 1999.

Net loss for the year ended December 31, 2000 was \$355.4 million compared to \$154.8 million in 1999. Basic and diluted net loss per share was \$24.41 in 2000 compared to \$10.90 in 1999 based on average shares outstanding of 15.6 million and 14.7 million, respectively.

#### YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues increased \$73.3 million to \$251.8 million in 1999 from \$178.5 million in 1998. MobiFon's continued growth accounted for substantially all of the increase.

Total operating expenses increased to \$290.3 million in 1999 from \$240.7 million in 1998. Cost of revenues increased to \$95.3 million from \$85.6 million and was mainly due to higher revenues in MobiFon. Selling, general and administrative expenses increased by \$22.3 million to \$132.9 million in 1999. MobiFon's growth contributed \$20.1 million of the increase.

Depreciation and amortization increased to \$62.2 million in 1999 from \$44.5 million in 1998. The increase is mainly attributable to capital expenditures in Romania.

Interest expense increased by \$17.3 million to \$73.9 million in 1999. Interest expense is mainly related to our accreted interest on 13<sup>1</sup>/<sub>4</sub>% and 10<sup>1</sup>/<sub>2</sub>% Senior Discount Notes at the corporate level and interest expense related to MobiFon's long-term senior credit facilities. Interest income decreased to \$1.8 million in 1999 from \$11.5 million in 1998, primarily due to a decrease in the average temporary cash surplus during the year. The foreign exchange loss of \$17.8 million in 1999, compared to a loss of \$6.3 million in 1998, is a result of the devaluation of the Leu in Romania, which account for \$13.5 million.

In November 1999, a shareholder of MobiFon increased its equity interest from 10.0% to 20.1% following the exercise of an option and the purchase of 1.1% of MobiFon's equity owned by us. This same shareholder also repaid a loan from us with a premium. These transactions result in a gain on investment of \$62.1 million. Included in gains on investments are write-downs of paging assets in The Netherlands and certain loans and advances for an aggregate amount of \$22.7 million.

Share of losses to non-controlling interest amounted to \$15.9 million in 1999, representing the share of MobiFon's losses attributed to non-controlling interest.

As a result of the foregoing, loss from continuing operations for the year ended December 31, 1999 was \$74.6 million compared to \$99.9 million in 1998. Basic and diluted net loss per share from continuing operations was \$5.43 in 1999 compared to \$7.18 in 1998, based on average shares outstanding of 14.7 million and 13.9 million, respectively.

Loss from discontinued operations increased to \$80.2 million for the year ended December 31, 1999 compared to \$79.2 million for the prior year period. Included against loss from discontinued operations for the year ended December 31, 1999 are dilution gains of \$152.2 million. Excluding these gains, loss from discontinued operations was \$232.4 million for the year ended December 31, 1999.

As a result of the foregoing, net loss for the year ended December 31, 1999 was \$154.8 million compared to \$179.0 million for the prior year period and the corresponding basic and diluted net loss per share was \$10.90 in 1999 compared to \$12.87 in 1998.

#### **MobiFon**

*For the years ended December 31,  
(in thousands of dollars)*

	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Revenues</i>			
<i>Services</i>	<b>359,868</b>	299,470	211,359
<i>Equipment</i>	<b>12,475</b>	8,097	22,606
	<b>372,343</b>	307,567	233,965
<i>Cost of services</i>	<b>69,835</b>	62,366	50,706
<i>Cost of equipment</i>	<b>27,236</b>	18,347	32,617
<i>Selling, general and administrative expenses</i>	<b>88,836</b>	96,735	95,731
<i>Operating income before depreciation and amortization</i>	<b>186,436</b>	130,119	54,911
<i>Depreciation and amortization</i>	<b>77,791</b>	65,965	52,238
<i>Operating income</i>	<b>108,645</b>	64,154	2,673

#### **YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000**

MobiFon's service revenues increased to \$359.9 million in 2001 from \$299.5 million in 2000, reflecting the continued subscriber growth. MobiFon added 831,800 cellular subscribers, compared to 469,700 net additions in the same period in 2000, to reach 2,003,600 subscribers at as December 31, 2001 compared to 1,171,800 at the end of 2000.

Cost of service revenues decreased as a percentage of service revenues to 19.4% in 2001 compared to 20.8% in 2000 and was \$69.8 million in 2001 compared to \$62.3 million in 2000. The decrease as a percentage of service revenues was attributable to continued tight control over operating costs and economies of scale. The cost of equipment continues to exceed associated equipment revenues, consistent with our policy to sell equipment at prices that will attract new subscribers.

Selling, general and administrative expenses decreased to \$88.8 million in 2001 compared to \$96.7 million in the previous year, as a result of both the continued success from the implementation of a cost control program in 2000 and strong credit policies which reduced bad debt expense. MobiFon's operating income before depreciation and amortization increased to \$186.4 million in 2001 from \$130.1 million in 2000 due to the above factors.

Depreciation and amortization increased to \$77.8 million in 2001 from \$66.0 million the previous year as a result of network expansion in Romania during 2001 and 2000. As a result of the foregoing, the operating income increased to \$108.6 million in 2001 from \$64.2 million in 2000.

**FOR THE YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998**

MobiFon's service revenues increased to \$299.5 million in 2000 from \$211.4 million in 1999, reflecting continued subscriber growth. MobiFon's subscriber base increased to 1,171,800 at the end of 2000 from 702,100 at the end of 1999.

Cost of service revenues decreased as a percentage of revenues to 20.8% in 2000 compared to 24.0% in 1999 and was \$62.4 million in 2000 compared to \$50.7 million in 1999. Most of the decrease as a percentage of revenues was attributed to continued tight controls over operational expenses and economics of scale. The cost of equipment continued to exceed associated revenues, consistent with our practice to sell equipment at prices that will attract new subscribers.

Selling, general and administrative expenses remained stable at \$96.7 million in 2000 compared to \$95.7 million in the previous year, despite the growth of its subscriber base reflecting the implementation of a cost control program and a reduction in selling and marketing expenses compared to 1999. MobiFon's operating income before depreciation and amortization increased to \$130.1 million in 2000 from \$54.9 million in 1999 due to subscriber growth.

Depreciation and amortization increased to \$66.0 million in 2000 from \$52.2 million the previous year as a result of the significant network expansion in Romania during late 1999 and 2000. As a result of the foregoing, the operating income increased to \$64.2 million in 2000 from \$2.7 million in 1999.

**FOR THE YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998**

MobiFon's service revenues increased 57.7% to \$211.4 million in 1999 from \$134.1 million in 1998, reflecting continued subscriber growth to 702,100 at the end of 1999 from 325,300 at the end of 1998.

Cost of service revenues decreased as a percentage of revenues to 24.0% in 1999 compared to 34.6% in 1998 and was \$50.7 million in 1999 compared to \$46.4 million in 1998. The reduction as a percentage of revenues was due to the reduction of certain costs such as leased lines and economies of scale. The cost of equipment exceeded associated revenues, consistent with our practice to sell equipment at prices that will attract new subscribers.

Selling, general and administrative expenses increased to \$95.7 million in 1999 compared to \$75.6 million in the previous year due primarily to higher customer acquisition costs resulting from subscriber growth. Operating income before depreciation and amortization increased to \$54.9 million in 1999 from \$11.5 million in 1998, due to MobiFon's growth.

Depreciation and amortization increased 37% to \$52.2 million in 1999 from \$38.1 million the previous year as a result of the significant network expansion in Romania during late 1998 and 1999. As a result of the foregoing, operating income increased to \$2.7 million in 1999 from an operating loss of \$26.7 million in 1998.

**Český Mobil**

For the years ended December 31,  
(in thousands of dollars)

	2001	2000	1999
	\$	\$	\$
Revenues			
Services	125,928	21,508	—
Equipment	18,037	12,529	—
	143,965	34,037	—
Cost of services	97,275	36,654	—
Cost of equipment	22,323	15,969	—
Selling, general and administrative expenses	65,921	63,418	4,712
Operating loss before depreciation and amortization	(41,554)	(82,004)	(4,712)
Depreciation and amortization	42,562	22,056	15
Operating loss	(84,116)	(104,060)	(4,727)

*YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000*

Český Mobil's service revenues increased to \$125.9 million in 2001 from \$21.5 million in 2000, reflecting continued subscriber growth and a full year of operations in 2001 compared to 10 months of commercial operations in 2000. Český Mobil added 556,700 net cellular subscribers, compared to 301,700 net additions in the same period in 2000, to reach 858,400 subscribers as at December 31, 2001 compared to 301,700 at the end of 2000.

Cost of service revenues increased by 165% to \$97.3 million in 2001 compared to \$36.7 million in 2000 in support of the 486% increase in service revenues. Cost of equipment continued to be slightly greater than associated revenues consistent with our practice to sell equipment at prices to attract new subscribers.

Selling, general and administrative expenses remained stable at \$65.9 million despite the strong subscriber growth in 2001 due to tight cost controls compared to \$63.4 million in the previous year. Český Mobil's operating loss before depreciation and amortization decreased to \$41.6 million in 2001 from \$82.0 million in 2000 due primarily to subscriber growth.

Depreciation and amortization increased to \$42.6 million in 2001 from \$22.1 million the previous year as a result of network expansion during 1999 and 2000. As a result of the foregoing, the operating loss decreased to \$84.1 million in 2001 from \$104.1 million in 2000.

*YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999*

Český Mobil's service revenues were \$21.5 million in 2000, reflecting the launch of commercial operations in March 2000. Český Mobil's subscriber base was 301,700 at the end of 2000.

Cost of service revenues was \$36.7 million in 2000. Cost of equipment was higher than associated revenues consistent with our practice to sell equipment at prices to attract new customers and incentives offered on commercial launch.

Selling, general and administrative expenses were \$63.4 million in 2000 compared to \$4.7 million in the previous year, due to the commercial launch of operations in March 2000 and related subscriber and operations growth. Český Mobil's operating loss before depreciation and amortization increased to \$82.0 million in 2000 compared to \$4.7 million in 1999 due to the above.

Depreciation and amortization increased to \$22.1 million in 2000 from nil the previous year as a result of network expansion during 1999 and 2000. As a result of the foregoing, the operating loss was \$104.1 million in 2000 compared to \$4.7 million in 1999.

*YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998*

Český Mobil's commercial operations were launched in March of 2000 and as such the operating loss of \$4.7 million in 1999 reflects selling, general and administrative expenses incurred in connection with the license bid and pre-launch operations. No operations took place in 1998.

***Liquidity and Capital Resources***

The following table is a summary of our consolidated cash flows for the years ended December 31, 2001, 2000, and 1999

**Cash Flow Data**

For the years ended December 31,  
(in thousands of dollars)

	2001	2000	1999
	\$	\$	[Restated] \$
Cash provided by (used in) operating activities	5,877	51,950	(12,148)
Cash used in investing activities	(303,669)	(264,749)	(128,986)
	(297,792)	(212,799)	(141,134)
Cash provided by financing activities	332,602	796,827	279,814
Net effect of exchange rate translation on cash and cash equivalent	(628)	4,436	-
Cash provided by continuing operations	34,182	588,464	138,680
Cash used in discontinued operations	(79,397)	(504,148)	(141,273)
Increase (decrease) in cash and cash equivalents	(45,215)	84,316	(2,593)
Cash and cash equivalents, beginning of period	130,675	46,359	48,952
Cash and cash equivalents, end of period	85,460	130,675	46,359

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Cash provided by operating activities was \$5.9 million for the year ended December 31, 2001, compared to \$52.0 million for 2000. The year-over-year decline is entirely attributable to increased working capital needs at Český Mobil as MobiFon's operating income before depreciation and amortization showed continued growth and Český Mobil's operating loss before depreciation and amortization was reduced relative to that experienced in 2000.

Investing activities used cash of \$303.7 million during the year ended December 31, 2001, reflecting \$283.6 million of cash used for acquisitions of property, plant and equipment and \$23.2 million for the acquisition of additional shares of MobiFon. MobiFon and Český Mobil operations accounted for \$122.4 million and \$161.1 million of the capital spending, respectively.

Financing activities generated cash of \$332.6 million for the year ended December 31, 2001, reflecting the issuance of Units under a rights offering for net proceeds of \$248.6 million. We also generated \$114.1 million and \$65.8 million by borrowing under our long-term debt facilities and from proceeds from investees' shares issued to non-controlling shareholders, respectively. These sources of funds were offset by \$55.8 million of payments made in connection with the previously described high yield notes exchange, repayment of other long-term debt, and by the use of \$29.5 million in connection with the decrease of short-term loans.

Total consolidated indebtedness as of December 31, 2001 was \$912.2 million, including \$290.7 million at the corporate level.

Cash used in discontinued operations increased to \$79.4 million for the year ended December 31, 2001. The use of cash reflects the increase in operating loss before depreciation and amortization caused in Dolphin by lower service revenues and higher costs related to the build-out in the U.K., the launch of services in France as well as costs associated with network deployment in Germany offset by proceeds of \$153.3 million from the sale of our Brazilian B-Band joint venture operations.

FOR THE YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Cash provided by operating activities in 2000 was \$52.0 million compared to cash used in operating activities of \$12.1 million in 1999. The difference is mainly due to an improvement in working capital partially offset by a reduction in operating income before depreciation and amortization.

Cash used in investing activities in 2000 amounted to \$264.7 million. This amount mainly relates to the acquisition and build-out of property, plant and equipment in MobiFon and Český Mobil for \$85.0 million and \$239.5 million, respectively, partly offset by proceeds of \$75.4 million from the waiver of our right to acquire a 3.5% interest in 3G Holdings.

Cash provided by financing activities in 2000 was \$796.8 million compared to \$279.8 million in 1999. Of the 2000 amount, \$107.8 million related to proceeds of shares issued, \$107.2 million relates to increase in short-term loans, \$169.4 million relates to increase of long-term debt, net of repayments, of which \$187.2 million is attributable to Český Mobil, and \$291.0 million was provided by the issuance of convertible debentures at the corporate level.

Cash used in discontinued operations was \$504.1 million for the year ended December 31, 2000 compared to \$141.3 million for the corresponding prior period. The increase is mainly due to the build-out of the ESMR network in the U.K., and the investment of \$155.7 million in our Brazilian cellular joint ventures.

FOR THE YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Cash used in operating activities in 1999 was \$12.1 million compared to cash used in operating activities of \$54.0 million in 1998 due mainly to an increase in operating income before depreciation and amortization to \$23.6 million in 1999 from an operating loss before depreciation and amortization of \$17.7 million in 1998.

Cash used in investing activities in 1999 amounted to \$129.0 million. This amount mainly related to acquisition of property, plant and equipment and licenses of \$208.6 million of which \$141.8 million and \$63.1 million were made in MobiFon and Český Mobil, respectively. This is partially offset by \$74.9 million received as proceeds from the sale of shares of MobiFon to a minority shareholder and reimbursement of advances. Cash used in investing activities in 1998 amounted to \$180.6 million and mainly related to acquisitions of capital assets in MobiFon.

Cash provided by financing activities in 1999 was \$279.8 million, compared to \$412.6 million in 1998. Of the 1999 amount, \$89.2 million related to proceeds from the issuance of shares by investees to non-controlling interest in Central/ Eastern Europe, \$95.8 million from the issuance of convertible debentures at the corporate level and \$88.7 million to other long-term debt increases in operating investees in MobiFon. The \$412.6 million provided in 1998 consisted of proceeds from long-term debt of \$369.0 million and proceeds from issuance of a subsidiary's shares to minority interest of \$44.8 million.

Cash used in discontinued operations was \$141.3 million for the year ended December 31, 1999 compared to \$511.7 million used in the corresponding prior period. The cash requirements of our SMR/ESMR operations in 1999 were financed by way of an equity issuance by Dolphin of \$233.0 million to non-controlling interest. In 1999, we invested \$121.6 million in our Brazilian cellular joint ventures.

At the corporate level, as at December 31, 2001, we had cash and cash equivalents of \$30.1 million and we had total short-term and long-term debt of \$290.7 million, representing the accreted value of our Senior Discount Notes, the debt component of convertible debentures, the 14% Notes and short-term loans under the corporate credit facility. The following is a summary discussion of financing activities conducted at the corporate level.

From our inception to May 1997, substantially all of our cash requirements were met by the proceeds from private sales of equity securities, which were made pursuant to subscription agreements entered into over the 1994 to 1996 period, and totaled \$240.0 million.

In May 1997, we completed an initial public offering on the Toronto Stock Exchange of 13,000,000 Subordinate Voting Shares (pre-share capital consolidation) at a price of Cdn\$13.50 per share (pre-share capital consolidation) for proceeds of \$118.5 million, net of issue costs in the amount of \$7.6 million. In June and July 1998, we completed a public equity offering issuing 7,899,094 Subordinate Voting Shares (pre-share capital consolidation) and 416,794 Multiple Voting Shares (pre-share capital consolidation) at prices of \$21.35 per share and \$21.50 per share (pre-share capital consolidation), respectively. Concurrently, our shares were listed on the Nasdaq. The proceeds from this issue were \$169.3 million, net of issue costs in the amount of \$8.3 million. In February 2000, we completed the issuance of Cdn\$148.5 million (or \$102.0 million at the time of issue) of Subordinate Voting Shares. Concurrently with such public offering, Telesystem purchased Cdn\$8.6 million (or \$5.9 million at the time of issue) of Multiple Voting Shares in order to maintain the voting interest of its Multiple Voting Shares. The net proceeds of the public offering, combined with Telesystem's purchase of Multiple Voting Shares, were approximately \$102.8 million after deducting underwriting fees and other expenses in the amount of \$5.1 million.

In June 1997, we issued 13<sup>1</sup>/<sub>4</sub>% Senior Discount Notes with a nominal value of \$380.0 million. In October 1997, we issued 10<sup>1</sup>/<sub>2</sub>% Senior Discount Notes with a nominal value of \$167.0 million. Total gross proceeds from these issues were \$299.9 million, before issue costs in the amount of \$11.8 million.

On September 19, 2001, we completed the exchange mentioned previously, of substantially all of our Senior Discount Notes for \$50.0 million of cash and \$194.8 million of 14% Notes due December 30, 2003 resulting in the realization of a gain on forgiveness of debt of \$238.9 million.

Our 14% Notes mature on December 30, 2003. Interest on our 14% Notes accrues at a rate of 14% per annum from October 1, 2001. Interest will be payable semi-annually on each June 30 and December 30 and commenced on December 30, 2001. Interest payable on June 30, 2002 will be paid either in cash or additional 14% Notes at our option. The interest payment on December 30, 2001 was made by the issuance of \$6.7 million of additional 14% Notes. We have the option to redeem our 14% Notes, at any time, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest. The 14% Notes are guaranteed by our wholly-owned subsidiary Telesystem International Wireless Corporation N.V., which we refer to as the Guarantor. The guarantee is secured by a second priority lien on the capital stock of Telesystem International Wireless (Latin America) Inc., which we refer to as TIW Latin America, a holding company which holds our investments in cellular operations in Brazil. The guarantee is also secured by a first priority lien on our capital stock of ClearWave, following the repayment in full of our corporate credit facility or, should our corporate credit facility not have been repaid by October 2, 2002, by a second priority lien on the capital stock of ClearWave.

Our 14% Notes contain mandatory redemption provisions, which will require their repayment upon the sale of our interests in either ClearWave, or our direct or indirect interests in TIW Latin America; TIW do Brasil Ltda and Telpart. Furthermore, distributions from Telpart or ClearWave which aggregate to at least \$10.0 million will trigger mandatory repayments second to the repayment of the corporate credit facility. Our 14% Notes have negative covenants which, among others things, limits our ability to incur indebtedness, create liens and requires us to make an offer to repurchase all or any part of our 14% Notes subsequent to a change in control. In addition, our 14% Notes prohibit us from reducing, under certain conditions, our ownership in ClearWave. Additional 14% Notes will be issued to holders of such notes in the amount of approximately \$5.0 million on December 30, 2002 and approximately \$10.0 million on June 30, 2003 unless, on or prior to such dates, at least \$72.4 million in principal amount of 14% Notes have been redeemed or repurchased. Furthermore, the Guarantor and we have committed to file a registration statement with the United States Securities and Exchange Commission ("SEC"), and to have that registration statement declared effective by March 18, 2002, whereby our 14% Notes will be exchanged for identical freely tradable notes. From March 18, 2002, our 14% Notes will accrue additional interest at the rate of 0.5% per annum, increasing to 1% per annum if the delay exceeds 90 days, until such date that the registration statement is declared effective.

In February 1999, we completed the issuance of Cdn\$150.0 million (or \$98.6 million at the time of issue) of 7.00% equity subordinated debentures due February 15, 2002, which we refer to as our ESD, with cash interest payable semi-annually commencing August 1999. The net proceeds from the issuance of the 7.00% equity subordinated debentures were Cdn\$145.7 million (or \$95.8 million at the time of issue).

On February 5, 2002, we completed an issuer bid to acquire the Cdn\$150 million ESDs. Pursuant to the issuer bid and concurrent consent request, we paid Cdn\$6.8 million and issued 2.5 million warrants, each entitling the holder to purchase one Subordinate Voting Share at a price of Cdn\$1.61 at any time before March 31, 2003, to ESD holders who elected to receive Cdn\$300 in cash and 109 warrants for each Cdn\$1000 in principal amount, including accrued and unpaid interest which we refer to as the Cash Offer. We also issued approximately 37.7 million Subordinate Voting Shares and approximately 3.7 million warrants, each entitling the holder to purchase one Subordinate Voting Share at a price of Cdn\$1.61 at any time before September 30, 2002, to ESD holders who elected to receive 308 Subordinate Voting Shares and 30 warrants for each Cdn\$1000 in principal amount, including accrued and unpaid interest which we refer to as the Share Offer. We amended the ESDs to, among other things, extend the maturity of the ESDs to December 2006, reduce the principal amount of each ESD to Cdn\$250, delay the next interest payment date to June 30, 2002, provide for our right to convert the ESDs at maturity into Subordinate Voting Shares at a price equal to the greater of Cdn\$1.00 and the then current market price of the Subordinate Voting Shares and provide for the optional conversion at maturity by holders of the ESDs into Subordinate Voting Shares at a price of Cdn\$4.40. We also paid approximately Cdn\$0.1 million to ESD holders who consented to the proposed amendments but did not elect either the Share Offer or Cash Offer. We have amended and reduced the remaining outstanding principal of an aggregate of approximately Cdn\$5.0 million in principal amount of ESDs to an aggregate of approximately Cdn\$1.25 million in principal amount.

In July 1999, we entered into a corporate credit facility with certain financial institutions, providing for aggregate borrowing capacity of \$140.0 million. Our corporate credit facility was amended on July 3, 2001 and subsequently on February 4, 2002. The amended terms of our corporate credit facility allow for an extension of the maturity of the facility from July 14, 2002 to December 15, 2002 at our option subject to certain conditions including the granting of additional security and the reduction of the availability under the facility to \$75 million. The Company repaid \$8.5 million of the facility on February 5, 2002, reducing the amount drawn to \$75 million. The facility is collateralized by the shares of certain investees and bears interest at U.S. base rate plus a margin of 9.36% or LIBOR plus a margin of 10.0%.



On March 8, 2000, we issued \$300.0 million of 7.75% Convertible Debentures for net cash proceeds of \$291.0 million. On February 5, 2002, we converted 100% of the \$300 million in principal amount of 7.75% Convertible Debentures and the accrued and unpaid interest of \$11.6 million due September 2001 for 154.5 million Subordinated Voting Shares. We also issued warrants to a holder to purchase up to a total of 15 million Subordinate Voting Shares at \$1.00 per share on or before September 30, 2002.

On February 14, 2001 we issued 43.8 million Units for gross proceeds of Cdn\$396.5 million (\$260.4 million) before issue costs of Cdn\$18.2 million (\$11.9 million) pursuant to a rights offering made to holders of our Multiple and Subordinate Voting Shares. We also issued 2.1 million Units as a partial payment on acquisition of MobiFon's shares held by non-controlling interest. On December 11, 2001, we launched an exchange offer to repurchase all outstanding Units. On February 5, 2002, in connection with such exchange offer and the financing commitments under a private placement subscription agreement between Telesystem Ltd, and certain of our other stakeholders, we acquired 33.7 million Units and raised \$51.7 million in gross proceeds. The raising of these funds was in addition to a December 14, 2001 private placement resulting in the issuance of 24.5 million warrants at a negotiated price of approximately \$0.61 each, exercisable for one Subordinate Voting Share or one non-voting preferred share convertible at the holder's option into our common equity at no additional cost for a cash consideration of \$14.5 million net of issuance costs of \$0.5 million. We refer to these warrants as our Special Warrants. Pursuant to the February 5, 2002 private placement and exchange offer on the Units, we have issued (a) an additional 269.2 million in aggregate of Subordinate Voting Shares and Special Warrants (b) 4.8 million warrants, each allowing the holder to purchase one Subordinate Voting Share at a price \$1.00 on or before March 31, 2003 and (c) 8.5 million warrants, each allowing the holder to purchase one Subordinate Voting Share at a price Cdn\$1.59 on or before March 31, 2003. The Unit acquisition has resulted in an increase in our equity interest and voting rights in ClearWave from 45.5% and 80.7% respectively, to 85.6% and 94.9%, respectively.

On February 5, 2002, all of our Multiple Voting Shares were converted into Subordinate Voting Shares on a one for one basis.

On March 13, 2002, the remaining 35,000,000 Special Warrants were converted into 35,000,000 non-voting Preferred Shares for no additional considerations.

As a result of the above transactions, as of March 13, 2002, the following represents all equity securities outstanding and the number of Subordinate Voting Shares into which all securities are convertible, exercisable or exchangeable:

	<b><i>Subordinate Voting Shares</i></b>
<i>Subordinate Voting Shares outstanding</i>	467,171,780
<i>Preferred Shares outstanding</i>	35,000,000
<i>Outstanding granted employees and directors' stock options</i>	457,883
<i>Warrants</i>	34,490,983
<i>Units</i>	2,427,767
<i>Convertible Equity Subordinated Debentures</i>	284,091
	<b>539,832,504</b>

The issuances of the above Subordinate Voting Shares and Preferred Shares will have a material impact on earnings per share for reporting periods subsequent to their issuances.

At the operating company level, we seek, where possible, to finance the cash requirements of developing and expanding our operations on a project-by-project basis. Although projects are typically financed by contributions from our partners and us in the form of equity and shareholder advances, we seek to obtain third party financing after the initial stages of a project's development. Sources of financing at the operating company level may include vendor financing provided by equipment suppliers, project financing from commercial banks and international financial institutions such as the European Bank for Reconstruction and Development, which we refer to as the EBRD, bank lines of credit and the sale of debt securities by the operating companies.

### ***MobiFon***

MobiFon's cash requirements as at December 31, 2001 have been met by aggregate capital contributions of \$270.6 million and borrowings under its bank facilities, net of repayments, of \$248.5 million.

In September 1997, the EBRD arranged a \$190.0 million loan facility for MobiFon. This EBRD facility includes a \$10.0 million subordinate loan bearing interest at 15% maturing in 2003, nine-year senior loans totaling \$110.0 million bearing interest at LIBOR plus 3.25% and a \$70.0 million eight-year syndicated senior loan bearing interest at LIBOR plus 3.05%. MobiFon entered into agreements, including interest rate swap agreements, pursuant to which \$167.2 million of the above borrowings have effective fixed interest rates from 8.35% to 9.75% until April 2002. The EBRD facility is secured by a pledge of our shares and certain of the non-controlling interests' shares in MobiFon and by substantially all of the assets of MobiFon.

In January 1999, MobiFon closed a second long-term loan facility totaling \$105.0 million, jointly arranged by ABN AMRO N.V. and the EBRD. This second EBRD facility comprises loans of \$40.0 million and a \$65.0 million syndicated export credit facility. Borrowings under this facility bear variable interest rates and are repayable in installments through 2006. MobiFon used the proceeds to complete the build-out of its cellular network and to pay \$25.0 million to extend its ten-year license by five years to November 2011. Due to the substantial increase in MobiFon's subscriber base during 1999, most of which were post-paid subscribers entailing significant up-front expenditures such as dealer and sales representative commission, MobiFon was unable to meet, as of December 1999, its cash flow multiple ratio financial covenant provided in these loan facilities (defined as total debt plus short-term liabilities over operating income before depreciation and amortization). The lenders granted a waiver on February 1, 2000, subject to certain stated conditions including a reduction of \$11.5 million in the amount available for drawing under the facilities. As of December 31, 2000, MobiFon's second EBRD facility was fully drawn. MobiFon met the cash flow financial covenant tests in each quarter during the year 2000. However, because the financial covenants could limit its flexibility in executing its operating plans, MobiFon renegotiated certain of those covenants with the lenders effective from and after December 31, 2000.

MobiFon also has \$20.0 million of working capital facilities with ABN AMRO Romania S.A., and with Citibank S.A., secured by a first right over the proceeds from any foreclosure of the pledge of MobiFon's bank accounts.

### ***Český Mobil***

The cash requirements of Český Mobil through December 31, 2001 have been met primarily by shareholder contributions of \$306.7 million and by \$301.8 million of borrowings under their senior secured syndicated credit facility entered into on July 19, 2000.

In July 2000, Český Mobil entered into an agreement for a senior secured syndicated credit facility consisting of €295.7 million and Koruna 5.5 billion (totaling approximately \$416.8 million) carrying interest at a rate of EURIBOR plus 1.75% for Euro drawings and PRIBOR plus 1.75% for Koruna drawings reimbursable through installments between June 2004 to December 2009. As at December 31, 2001, approximately \$301.8 million had been drawn under this facility. Český Mobil entered into interest rate and currency swap arrangements resulting in the amounts drawn by December 31, 2000 (approximately \$187 million) effectively being Koruna based and having effective fixed interest rates ranging from 8.59% to 9.98% until November 2005. Český Mobil will use the funds to finance the construction, operation, working capital, debt service and related requirements of their GSM network in the Czech Republic including the repayment of amounts financed under supply contracts with Siemens and Ericsson.

The facility is collateralized by a pledge of TIW Czech's shares in Český Mobil and of substantially all of the assets of Český Mobil. Under this facility, Český Mobil must respect certain financial covenants and coverage tests. Furthermore, prior to each draw down, the ratio of senior debt to invested capital in Český Mobil must not exceed 60:40 or, that the total invested capital in Český Mobil will equal or exceed the Euro equivalent of \$350.0 million. We and our partners have funded \$306.7 million of the required capital and have committed to fund the remaining \$43.3 million of which our share is \$13.8 million.

As a result of MobiFon's and Český Mobil's syndicated senior credit facilities, substantially all of ClearWave's net assets are restricted.

We expect to have significant future capital requirements, particularly in relation to the expansion, construction and initial operation of our Czech Republic GSM network and the servicing of debt. We intend to finance such future capital requirements from cash flow from operating activities, borrowing under our existing credit facilities, non-controlling shareholders' funding under share subscription agreements and through other externally generated funds such as the disposition of non-strategic assets, the sale of debt and equity securities, vendor financing and project financing from commercial banks and international financial agencies.

MobiFon's future capital requirements will include debt repayment and network expansion, both of which are expected to be financed by cash flows from operations. Český Mobil's capital requirements will include the expansion of its cellular network and the financing of its operational losses. These requirements are expected to be financed by drawings under its senior secured syndicated credit facility and by way of shareholders' funding commitments. As at December 31, 2001, our share of such commitments over the next six months is estimated at \$13.8 million.

We are a holding company with no material business operations, sources of income or operating assets of our own other than the shares of our subsidiaries and operating companies. Our cash flow and, consequently, our ability to meet our debt service obligations is dependent upon the payment of funds by our subsidiaries in the form of loans, dividends, advances or otherwise. Under certain of our long-term debt agreements, we are subject to certain financial and negative covenants, including restrictions on our ability to incur indebtedness, pay dividends, make certain other payments, create liens, sell assets and engage in mergers. Restrictions also exist on the ability of certain of our subsidiaries to transfer funds in the form of dividends, loans or otherwise.

As at December 31, 2001, due to the short-term maturity of our corporate credit facility, our committed cash obligations for the upcoming twelve months exceed our committed sources of funds and our cash and cash equivalents on hand. In addition, it will be necessary for us to comply with our debt covenants in order to have access to our financing arrangements according to the terms of the related agreements. As a result, there is significant uncertainty as to whether we have the ability to continue as a going concern. We continue to review opportunities to refinance debt, raise new financing and sell assets. We regularly evaluate opportunities for the expansion of our operations or for further investments in wireless telecommunications projects, including increases in ownership in our current operations. The future capital requirements related to such investment activities, if any, will be incremental to the anticipated capital contributions to existing operations, and therefore additional corporate financing will be required to fund such development projects or to further support current operations. The ability to generate short-term and long-term capital in the future is dependent upon many factors, including general economic conditions in the countries where we conduct our principal operations, and financial market conditions.

## FINANCIAL STATEMENTS

We report our financial statements in U.S. dollars. We operate in several different currency jurisdictions and all operations function in local currencies. Virtually all of our revenues and a substantial portion of our operating expenses are in currencies other than our reporting currency. As a result, we are exposed to exchange rate risk. Any significant change in the relevant exchange rates, whether of a short-term nature or a steady long-term change in relative valuation, could have a material effect on our financial statements. In Romania, significant devaluation relative to the U.S. dollar has occurred in the past and may occur again in the future. In addition, we experience fluctuations in our results of operations solely as a result of exchange rate fluctuations.

Where possible, we adjust our tariffs for the effects of inflation, one of the factors affecting relative exchange rates. However, we may be unable, due to regulatory restrictions and market conditions, to adjust our local tariffs in response to changes in the exchange rates relative to our reporting currency and may therefore be unable to protect ourselves from currency rate fluctuations.

At the corporate level, we may elect to enter hedging arrangements from time to time in the future, although we are not currently party to any such transaction and do not have a policy to systematically hedge against foreign currency fluctuations. At the operating company level, we seek to reduce our foreign exchange exposure arising from transactions through a policy of matching, where possible, assets and liabilities. In some cases, we may borrow in U.S. dollars or EURO because it is either advantageous for the operating companies to incur debt obligations in such currency or because such currency denominated borrowings are the only funding source available to the operating company at the time. Český Mobil has hedged a portion of its variable rate debt, by entering into interest rate and cross currency swaps in which Český Mobil has agreed to exchange, at specified intervals, the difference between fixed and variable interest on Euro 116.3 million and 3.0 billion Koruna of variable rate debt until November 2005. Additionally, these swaps have fixed the foreign currency rates on the Euro based debt from the Euro to Koruna. A swap was entered into on a further Euro 21.5 million of borrowings which fixed the foreign currency rate on the interest payments from Euro to Koruna and changed the referenced interest rate from EURIBOR to PRIBOR. For the remaining amounts, we have decided to accept for the time being the inherent currency risk, principally because of the relatively high cost of buying, or the inability to buy, forward cover in currencies of the countries in which we operate.

## INFLATION

Inflation has not been a material factor affecting our business to date. Although system equipment costs may increase over time as a result of inflation, we expect that the cost of subscriber equipment will decrease over time as volume increases, although there can be no assurance that this will be the case. General operating expenses such as salaries, employee benefits and lease costs are, however, subject to normal inflationary or deflationary pressures.

In Romania and certain other countries, the effects of inflation may become significant to our operations. Where permitted, and subject to competitive pressures, we intend to increase our tariffs to account for the effects of inflation. However, in those jurisdictions where tariff rates are regulated or specified in the license, such as in India, we may not be able to mitigate the impact of inflation on our operations.

The management of the Company is responsible for the preparation and integrity of the financial statements and all other financial information contained in the Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgement. Management considers that the statements present fairly the financial position of the Company, the results of its operations and the changes in its financial position. Financial information contained elsewhere in this Annual Report is consistent with the information contained in the financial statements.

To fulfill its responsibility, management developed and maintains internal accounting controls and established policies and procedures designed to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to review by the external auditors during the examination of the financial statements.

The Board of Directors oversees management's performance of its financial reporting and internal control responsibilities. The Board of Directors carries out its responsibility with regard to the consolidated financial statements primarily through its Audit Committee.

The Audit Committee, which is composed exclusively of outside directors, meets regularly with the external auditors, and with management, to discuss accounting policies and practices, internal control systems, the scope of audit work and to assess reports on audit work performed. The external auditors have direct access to the Audit Committee, with or without the presence of management, to discuss results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.



**Bruno Ducharme**

President and Chief Executive Officer



**André Gauthier**

Vice-President and Chief Financial Officer

To the Board of Directors and Shareholders of  
**Telesystem International Wireless Inc.**

We have audited the consolidated balance sheets of **Telesystem International Wireless Inc.** as at December 31, 2001 and 2000 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

The Company has changed its method of accounting for foreign exchange gains and losses and earnings per share as described in Note 3.

*Ernst & Young LLP*

Montréal, Canada

March 5, 2002

(except for Note 18, which is as of March 13, 2002)

Chartered Accountants

**COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - U.S. REPORTING DIFFERENCES**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated March 5, 2002 (except for Note 18, which is as March 13, 2002) is expressed in accordance with Canadian reporting standards which do not permit a reference to such events when they are adequately disclosed in the financial statements.

*Ernst & Young LLP*

Montréal, Canada

March 13, 2002

Chartered Accountants

As at December 31,  
[In thousands of U.S. dollars]

	2001	2000
	\$	\$
<b>ASSETS</b> [Note 6]		[Restated, Notes 3 and 15]
<b>Current assets</b>		
Cash and cash equivalents	85,460	130,675
Trade debtors [net of allowance for bad debts of \$8,993; 2000 - \$9,223]	48,759	36,198
Inventories	15,385	11,218
Deferred tax assets [Note 10]	3,548	-
Prepaid expenses	22,012	16,615
Current assets related to discontinued operations [Note 15]	182,047	404,982
Other current assets	14,546	26,791
<b>Total current assets</b>	<b>371,757</b>	<b>626,479</b>
Property, plant and equipment [Note 5]	871,915	736,728
Licenses [Note 5]	97,667	109,047
Goodwill [Note 5]	52,606	29,184
Non-current assets related to discontinued operations [Note 15]	470,043	1,737,727
Deferred financing costs	25,224	35,402
Investments and other assets [Note 4a]	17,454	19,598
	<b>1,906,666</b>	<b>3,294,165</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term loans [Note 6]	83,500	113,000
Trade creditors	66,393	83,339
Accrued liabilities	40,934	91,909
Current liabilities related to discontinued operations [Note 15]	107,727	629,522
Deferred revenues	32,370	20,147
Current portion of long-term debt [Note 6]	44,519	28,197
<b>Total current liabilities</b>	<b>375,443</b>	<b>966,114</b>
Long-term debt [Note 6]	784,183	1,013,725
Deferred tax liabilities [Note 10]	3,548	-
Non-current liabilities related to discontinued operations [Note 15]	381,432	1,065,477
Other non-current liabilities [Notes 4a and 6]	14,775	4,500
Non-controlling interest	178,228	167,960
<b>Shareholders' equity</b> [Note 18]		
Share capital [Note 7]	696,954	684,639
Equity component of convertible debentures [Note 8]	405,195	388,259
Units [Note 8]	260,843	-
Warrants [Note 7]	14,502	-
Deficit	(1,126,015)	(843,739)
Cumulative translation adjustment [Notes 4c and 15]	(82,422)	(152,770)
<b>Total shareholders' equity</b>	<b>169,057</b>	<b>76,389</b>
	<b>1,906,666</b>	<b>3,294,165</b>

Commitments and contingencies [Notes 1, 13 and 15]  
See accompanying notes

On behalf of the Board:



Charles Sirois  
Director



C. Kent Jespersen  
Director

Years ended December 31,  
[In thousands of U.S. dollars, except per share data]

	2001	2000	1999
	\$	\$	\$
	[Restated, Notes 3 and 15]		
<b>Revenues</b>			
Services	495,230	332,471	227,208
Equipment	30,995	21,581	24,617
	526,225	354,052	251,825
Cost of services	171,239	102,725	58,654
Cost of equipment	50,306	43,983	36,649
Selling, general and administrative expenses [Note 9]	183,113	201,982	132,880
Depreciation and amortization [Note 9]	122,008	90,384	62,159
<b>Operating loss</b>	(441)	(85,022)	(38,517)
Interest expense [Note 9]	(121,257)	(95,689)	(73,945)
Interest income	6,417	16,894	1,848
Foreign exchange gain (loss)	3,577	(5,043)	(17,769)
Gains (loss) on investments [Note 4b]	(10,741)	85,669	37,807
Gain on forgiveness of debt [Note 6]	238,940	-	-
<b>Income (loss) from continuing operations before income taxes and non-controlling interest</b>	116,495	(83,191)	(90,576)
Income taxes [Note 10]	-	-	-
<b>Income (loss) from continuing operations before non-controlling interest</b>	116,495	(83,191)	(90,576)
Non-controlling interest	45,894	63,519	15,935
<b>Income (loss) from continuing operations</b>	162,389	(19,672)	(74,641)
<b>Loss from discontinued operations</b> [Note 15]	(416,103)	(335,684)	(80,161)
<b>Net loss</b>	(253,714)	(355,356)	(154,802)
Deficit, beginning of year:			
As previously reported	(858,602)	(476,033)	(295,391)
Adjustment [Note 3]	14,863	12,006	(8,790)
As restated	(843,739)	(464,027)	(304,181)
Interest paid in shares on convertible debentures [Note 8]	(11,625)	(11,663)	-
Accretion of equity component of convertible debentures [Note 8]	(16,937)	(12,693)	(5,044)
<b>Deficit, end of year</b>	(1,126,015)	(843,739)	(464,027)
Basic earnings (loss) per share [Note 7]			
From continuing operations	7.71	(2.83)	(5.43)
From discontinued operations	(24.00)	(21.58)	(5.47)
Net loss	(16.29)	(24.41)	(10.90)
Diluted earnings (loss) per share [Note 7]			
From continuing operations	4.05	(2.83)	(5.43)
From discontinued operations	(10.33)	(21.58)	(5.47)
Net loss	(6.28)	(24.41)	(10.90)

See accompanying notes



Years ended December 31,  
[in thousands of U.S. dollars]

	2001	2000	1999
	\$	\$	\$
<i>[Restated, Notes 3 and 15]</i>			
<b>OPERATING ACTIVITIES</b>			
Income (loss) from continuing operations	162,389	(19,672)	(74,641)
Reconciling items:			
Depreciation and amortization	122,008	90,384	62,159
Accreted interest on long-term debt	51,171	53,285	47,113
Non-controlling interest	(45,894)	(63,519)	(15,935)
Loss (gain) on investments	10,741	(85,669)	(37,807)
Gain on forgiveness of debt	(238,940)	-	-
Other non-cash items	(3,642)	-	-
Changes in operating assets and liabilities [Note 11]	(51,956)	77,141	6,963
<b>Cash provided by (used in) operating activities</b>	<b>5,877</b>	<b>51,950</b>	<b>(12,148)</b>
<b>INVESTING ACTIVITIES</b> [Note 11]			
Acquisition of property, plant and equipment	(283,647)	(325,313)	(150,785)
Acquisition of licenses	-	-	(57,843)
Increase of ownership in subsidiaries [Note 4b]	(23,239)	(20,000)	-
Proceeds from sales of investments [Note 4b]	-	75,366	74,894
Other investments and advances	3,217	5,198	4,748
<b>Cash used in investing activities</b>	<b>(303,669)</b>	<b>(264,749)</b>	<b>(128,986)</b>
<b>FINANCING ACTIVITIES</b> [Note 11]			
Increase in short-term loans	(29,500)	107,209	5,791
Issuance of convertible debentures, net of issue costs	-	291,000	95,829
Proceeds from units issued, net of issue cost	248,591	-	-
Proceeds from warrants issued, net of issue cost [Note 7]	14,502	-	-
Payments made in notes exchange, including fees and costs	(55,838)	-	-
Proceeds from shares issued, net of issue costs	667	107,895	298
Proceeds from investees' shares issued to non-controlling interest, net of issue costs	65,779	121,340	89,201
Proceeds from long-term debt of operating subsidiaries	114,106	176,385	88,695
Repayment of long-term debt of operating subsidiaries	(25,705)	(7,002)	-
<b>Cash provided by financing activities</b>	<b>332,602</b>	<b>796,827</b>	<b>279,814</b>
<b>Net effect of exchange rate translation on cash and cash equivalents</b>	<b>(628)</b>	<b>4,436</b>	<b>-</b>
<b>Cash provided by continuing operations</b>	<b>34,182</b>	<b>588,464</b>	<b>138,680</b>
<b>Cash used in discontinued operations</b> [Note 15]	<b>(79,397)</b>	<b>(504,148)</b>	<b>(141,273)</b>
<b>Increase (decrease) in cash and cash equivalents for the year</b>	<b>(45,215)</b>	<b>84,316</b>	<b>(2,593)</b>
Cash and cash equivalents, beginning of year	130,675	46,359	48,952
<b>Cash and cash equivalents, end of year</b>	<b>85,460</b>	<b>130,675</b>	<b>46,359</b>

See accompanying notes

December 31, 2001 and 2000

(All tabular amounts are in thousands of U.S. dollars unless otherwise stated)

#### SUMMARY OF OPERATIONS

The Company, either directly or indirectly, develops, acquires and operates wireless telecommunications networks. The Company currently has cellular operations in Romania, the Czech Republic and India. During 2001, the Company discontinued its ESMR/SMR services in Western Europe. The Company also sold its B-Band cellular joint venture operations in Brazil on March 30, 2001 and on March 5, 2002, has adopted a formal plan to dispose of its A-Band cellular joint venture operations in Brazil. [See Note 15].

The Company expects to have significant future capital requirements, particularly in relation to the expansion of its cellular operations and the servicing of its debt. The Company intends to finance such future capital requirements from cash flow from operating activities, borrowings under its existing credit facilities, non-controlling interests' funding under shareholders' subscription commitments and through other externally generated funds such as the disposition of assets and the sale of equity securities. The ability to generate sufficient short-term and long-term capital in the future is dependent upon many factors, including general economic conditions in the countries where the Company conducts its principal operations and financial market conditions.

As at December 31, 2001, due to the short-term maturity of its corporate credit facility, the committed cash obligations of the Company for the upcoming twelve months exceed the committed sources of funds and the Company's cash and cash equivalents on hand. In addition, it will be necessary for the Company to comply with covenants to have access to its financing arrangements according to the terms of the related agreements. As a result, there is significant uncertainty as to whether the Company will have the ability to continue as a going concern. Between January 1, 2002 and March 13, 2002, the Company completed several transactions in connection with its Recapitalization Plan [see Note 18]. In addition to these transactions, the Company continues to review opportunities to refinance or amend the terms of its corporate credit facility, raise new financing and sell assets.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company not be successful in its efforts to refinance or amend the terms of its corporate credit facility.

The Company's future performance may also be affected by other factors such as competitive pressures, government actions relating to its licenses resulting from factors out of the Company's control or its ability to negotiate licenses requirements, technological changes, local taxes, devaluation of local currencies and inflation.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. As further described in Note 16, these accounting principles differ in certain respects from those that would have been followed had these financial statements been prepared in conformity with accounting principles generally accepted in the United States and related rules and regulations adopted by the United States Securities and Exchange Commission. The preparation of financial statements by management in accordance with generally accepted accounting principles requires the selection of accounting policies from existing acceptable alternatives. The summary of significant accounting policies is as follows:

### Consolidation

Investments over which the Company exercises control are consolidated. Investments, which are jointly controlled, are included using the proportionate consolidation method. Under this method, the Company's proportionate share of the assets, liabilities, income, expenses and cash flows of its joint ventures is consolidated in the Company's financial statements. Investments over which the Company has significant influence are accounted for using the equity method. Other investments are stated at cost less provisions for losses in value that are other than temporary.

The effect of the change in the Company's equity interest as a result of the shares issued by subsidiaries to non-controlling interests enters into the determination of consolidated net income (loss).

The following table summarizes, as at December 31, 2001 and 2000 the Company's principal subsidiaries and investees, grouped by business segments, along with the accounting treatment for these operations:

Company	2001		2000	
	Ultimate Equity Interest / Voting Rights	Accounting Treatment	Ultimate Equity Interest / Voting Rights	Accounting Treatment
<b>Central / Eastern Europe <sup>(1)</sup></b>				
ClearWave N.V. (Holding) [Note 8]	45.5% / majority	Consolidation	100.0% / majority	Consolidation
MobiFon S.A. (Romania)	28.9% / majority	Consolidation	58.9% / majority	Consolidation
TIW Czech N.V. (Holding)	10.4% / majority	Consolidation	23.3% / majority	Consolidation
Český Mobil a.s. (Czech Republic)	10.1% / majority	Consolidation	21.6% / majority	Consolidation
<b>Brazil (discontinued operations) [Note 15]</b>				
TIW (Latin America) Inc. (Holding)	100.0% / majority	Consolidation	100.0% / majority	Consolidation
Telpart Participações S.A. (Holding) ("Telpart") (A-Band)	48.9% / joint	Proportionate consolidation	48.9% / joint	Proportionate consolidation
Telemig Celular Participações S.A.	7.9% / majority	(2)	7.8% / majority	Consolidation
Tele Norte Celular Participações S.A.	7.1% / majority	(2)	7.4% / majority	Consolidation
Americel and Telet S.A. (B-Band) (sold in 2001)	N/A	N/A	16.3% / joint	Proportionate consolidation
<b>Western Europe (discontinued operations and loss of control) [Note 15]</b>				
Dolphin Telecom plc (Holding) ("Dolphin")	N/A	N/A	81.5% / majority	Consolidation
Dolphin Telecommunications Limited (United Kingdom)	N/A	N/A	81.5% / majority	Consolidation
N.B.-3 Limited (United Kingdom)	N/A	N/A	81.5% / majority	Consolidation
Dolphin Telecom S.A. (France)	N/A	N/A	81.5% / majority	Consolidation
RegioKorn Mecklenburg-Vorpommern Gesellschaft für Bündelfunkdienste mbH	N/A	N/A	76.0% / majority	Consolidation
Dolphin Telecom (Deutschland) GmbH (Germany)	N/A	N/A	76.0% / majority	Consolidation
Dolphin Telecom N.V. (Belgium)	N/A	N/A	81.5% / majority	Consolidation

(1) In February 2002, the Company's ultimate equity interest in ClearWave N.V., MobiFon S.A. and Český Mobil a.s. increased to 85.6%, 54.3% and 19.1%, respectively. [See Note 18]. For accounting purposes, since the Units are accounted for as equity, the Company consolidates 100% of the operations of ClearWave N.V. [See Note 8]

(2) Telpart has majority voting rights in these investees and they are consolidated at the Telpart level; Telpart results are then proportionately consolidated in the Company's accounts.

#### ***Use of estimates***

The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles in Canada requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### ***Cash equivalents***

Cash equivalents consist of term deposits and highly liquid debt instruments purchased with a maturity of three months or less, and are considered to be cash equivalents for cash flow reporting purposes.

#### ***Inventories***

Inventories consist of telecommunications equipment held for resale and are stated at the lower of cost, determined on a first-in first-out basis, and net realizable value.

#### ***Property, plant and equipment and licenses***

Property, plant, equipment and licenses are recorded at cost and are amortized over their estimated useful lives using the straight-line method over the following periods:

<i>Buildings</i>	<i>20 years</i>
<i>Network equipment and infrastructure</i>	<i>10 years</i>
<i>Computer equipment and software</i>	<i>3 to 5 years</i>
<i>Other equipment</i>	<i>3 to 5 years</i>
<i>Leasehold improvements</i>	<i>Term of the lease</i>
<i>Licenses</i>	<i>15 and 20 years</i>

Interest is capitalized during the construction of the Company's networks by allocating a portion of borrowing costs to the expenditures incurred on assets under construction.

#### ***Goodwill***

Goodwill, representing the excess of the cost of business acquisitions over the fair value of the identifiable net assets acquired, is amortized over a period of up to 20 years. On an ongoing basis, management evaluates the carrying value of goodwill for possible impairment. Such evaluation compares current and anticipated non-discounted cash flows before interest charges from related operations to the unamortized goodwill balance, over its remaining life, and considers operating trends and other relevant factors.

#### ***Financing costs***

Share and equity instrument issue costs are recorded as a reduction of the related accounts. Debt issue costs are deferred and are amortized over the life of the debt to which they relate.

#### ***Discontinued operations***

The results of discontinued operations are included in net loss but reported separately for current and prior periods. The consolidated balance sheet separately presents the current and non-current assets and liabilities related to the discontinued operations for current and prior periods.

### ***Income taxes***

The Company follows the liability method in accounting for income taxes. Deferred tax balances reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Valuation allowances are established when it is more likely than not deferred tax assets will not be realized.

### ***Foreign currency translation***

Transactions arising in foreign currencies are translated into U.S. dollars at the exchange rate at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rates of exchange. The resulting translation gains or losses are recognized in the consolidated statements of loss.

Results of operations from self-sustaining subsidiaries and joint ventures which report in currencies other than U.S. dollars are translated using the monthly average exchange rates, while assets and liabilities are translated using the current rates at each balance sheet date. The resulting exchange gains or losses are accumulated in the cumulative translation adjustment account included as a component of shareholders' equity.

The financial statements of foreign entities in highly inflationary economies are re-measured using the U.S. dollar as the functional currency. U.S. dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing year-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are charged to income.

### ***Revenue recognition***

Revenues from airtime and roaming, including those billed in advance, are recognized when services are provided or when contracts expire in cases where services have not been used. Revenues from handsets and related equipment are recognized upon shipment except for those included in a bundled package with airtime, which are deferred and amortized over the term of the contract. When handsets, related equipment and access to network are bundled with airtime, the revenue for the airtime is measured at the price of the airtime on a stand-alone basis. When prepaid cards are sold to dealers, the revenue from the airtime is measured at the face value of the time sold. Commissions to dealers are classified within selling, general and administrative expenses.

### ***Subscriber acquisition costs***

The excess between the cost of handsets to the Company over the amount recovered from sales to subscribers is recognized upon the sale of the handsets and is recorded in cost of equipment.

### ***Advertising costs***

Advertising costs are expensed as incurred.

### ***Earnings per share***

Basic and diluted earnings (loss) per share are calculated using the treasury stock method. Basic earnings (loss) per share is calculated using the weighted average number of voting shares outstanding during the year.

### ***Derivative financial instruments***

Interest rate option and swap agreements and cross currency swap agreements are used by the Company to hedge cash flow risk on certain of its variable rate long-term debt. The gains (losses) on these instruments are recognized in the statement of loss when the hedged item affects earnings.

### ***Stock-based compensation plans***

No compensation expense is recognized for the Company's stock-based compensation plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

### ***Recent developments***

The Canadian Institute of Chartered Accountants (CICA) recently issued Section 1581, Business Combinations, which eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interest method is effective for transactions initiated after June 30, 2001. The remaining provisions will be effective for 2002.

The CICA also issued Section 3062, *Goodwill and Other Intangible Assets*. This new Section eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, and addresses the amortization of intangible assets with a defined life and the impairment testing and recognition for goodwill and intangible assets. The Company will apply Section 3062 beginning in the first quarter of 2002. Application of the non-amortization provisions of Section 3062 is expected to result in a decrease in net loss of \$2.8 million in 2002. Similar requirements were also issued in the United States under Statement of Financial Accounting Standards No. 141 and 142.

In 2001, the CICA issued Section 3870, Stock-based Compensation and Other Stock-based Payments, which will be effective for the Company in the 2002 fiscal year. Under Section 3870, stock-based awards granted to non-employees must be accounted for using the fair value-based method. The new standard also requires that stock appreciation rights and awards of stock options that call for settlement in cash be accounted for in an amount equal to the difference between the exercise price and the fair value of the stock at the date of the grant. Additionally, stock appreciation rights that call for settlement in stock be accounted for either at fair value or in the same way as stock appreciation rights to be settled in cash. The Company is currently assessing the new regulations and the impact that adoption will have on its consolidated financial statements.

### ***3. CHANGE IN CANADIAN ACCOUNTING POLICIES***

The Company has retroactively adopted the new accounting recommendations with respect to accounting for foreign exchange gains or losses on monetary items and non-monetary items carried at market that have a fixed or ascertainable life extending beyond the end of the following year. Previously, these gains and losses were deferred and amortized on a straight-line basis over the term of the related items. The new recommendations require that these gains and losses be included in the determination of net income as they arise.

This change in accounting policy has been applied retroactively and has had the following impact on the financial statements: For 2001, total assets decreased by \$17.9 million, non-current liabilities related to discontinued operations decreased by \$8.4 million and deficit increased by \$9.5 million, loss from discontinued operations increased by \$4.6 million, and net loss per share increased by \$0.26. For 2000, total assets decreased by \$9.0 million, non-current liabilities related to discontinued operations decreased by \$23.9 million and deficit decreased by \$14.9 million, loss from discontinued operations decreased by \$2.9 million, and net loss per share decreased by \$0.19. For 1999, loss from discontinued operations decreased by \$20.8 million, and net loss per share decreased by \$1.42.

Effective January 1, 2001, the Company changed its method of determining the earnings (loss) per share with the adoption of the Section 3500, Earnings per Share of the CICA. Both basic and diluted earnings (loss) per share are now calculated using the treasury stock method as opposed to the imputed interest method, as required under the previous recommendations. The adoption of these recommendations had no effect on the basic and diluted loss per share previously presented.

**[a] Investments and other assets consist of the following:**

As at December 31,	2001	2000
	\$	\$
Share of assets of India	9,067	7,994
Funds held in trust	5,515	-
Loans and advances to joint ventures and other	2,872	11,604
	<b>17,454</b>	<b>19,598</b>

The Company's contribution in the capital of TIW Asia N.V., was satisfied by the transfer of its equity interest in Hexacom, an Indian cellular operator. Since the Company retains the risks and rewards of its Indian investee, the Company's share of assets and liabilities continue to be presented separately. The Company's share in liabilities of Hexacom totalled \$5.3 million and \$4.5 million as at December 31, 2001 and 2000, respectively and are included with other non-current liabilities. As at December 31, 2001, cash contributions that would otherwise have been made by the Company to the capital of TIW Asia N.V., amount to \$6.8 million and is recorded as an accrued liability.

On December 24, 2001, the Company transferred \$5.5 million to a trust for the contingent payments under an incentive retention plan for its key employees. The retention incentive provides for a payment upon an involuntary termination of employment for any reason other than performance or cause, of an amount equal to between four months and thirty-six months of base salary, depending on certain factors including seniority and functions filled, plus a portion of target bonus for the same period.

**[b] Business acquisitions and divestitures**

**MobiFon S.A.**

In November 1999, a minority shareholder of the Company's Romanian subsidiary, MobiFon S.A., ["Mobifon"] exercised its option to acquire treasury shares of the subsidiary for cash consideration of \$25.6 million. In addition, the minority shareholder reimbursed the Company for advances made to it and also acquired shares of MobiFon, held by the Company for an aggregate cash consideration of \$74.9 million. As a result of these transactions a gain of \$62.1 million was recognized and the equity interest of the Company in MobiFon, was reduced from 62.0% to 54.7%. The gain included a dilution gain of \$6.0 million.

In June 2000, ClearWave N.V. ["ClearWave"] acquired 4.23% of MobiFon's outstanding shares from a minority shareholder for an aggregate purchase price of \$32.2 million. Of this amount, \$17.0 million was paid in cash and \$6.1 million through a forgiveness of debt. The remaining \$9.1 million of the balance payable was paid through an issue of the Company's shares. In November 2000, ClearWave entered into an agreement to sell 25.0% of the acquisition for proceeds equal on a pro rata basis to the consideration paid by ClearWave subject to fulfillment of certain conditions. Those conditions were fulfilled in January 2001. The acquisition was accounted for using the purchase method except for the shares subject to the November 2000 sale agreement, which are considered to be a temporary investment and accounted for at cost. As a result of the acquisition, \$19.5 million of goodwill has been recorded.

On February 15, 2001, ClearWave acquired 5.7% of MobiFon's outstanding shares from certain minority shareholders for an aggregate purchase price of \$40.5 million. Of this amount, \$23.2 million was paid cash, \$12.3 million through the issuance by the Company of Units and \$5.0 million through a forgiveness of debt. They were accounted for using the purchase method and goodwill amounting to \$31.0 million was recorded on this transaction.

#### **Český Mobil a.s.**

In January 2000, TIW Czech N.V., ["TIW Czech"] exercised its right to acquire an additional 34.5% interest in Český Mobil a.s., ["Český Mobil"] for \$3.0 million pursuant to call option agreements with a minority shareholder of Český Mobil. As a result of this transaction TIW Czech's equity interest in Český Mobil, increased from 51.0% to 85.5%. This acquisition was accounted for using the purchase method, and the excess of the purchase price over the fair value of the identifiable net assets acquired resulted in the creation of goodwill in an amount of \$5.6 million.

Following the capital calls of Český Mobil in 2000 and 2001, in which the shareholders other than the Company's subsidiaries did not participate, the equity interest of TIW Czech in Český Mobil, increased from 85.5% to 94.1% and 95.5% at December 31, 2000 and 2001, respectively. No goodwill resulted from these transactions.

#### **Other**

On April 7, 2000, the Company sold its shares in CallMax B.V., its paging operations in The Netherlands, for a nominal amount. A loss of \$6.6 million has been recognized as a result of this transaction.

On April 14, 2000, the Company's Chinese investee sold all its assets for 209.1 million Chinese Renminbi [\$23.4 million]. This transaction resulted in \$8.3 million gain, of which \$4.4 million and \$3.9 million were recognized in 2001 and 2000, respectively.

On June 29, 2000, the Company sold its wholly-owned subsidiary, TIW UMTS UK Ltd., to Hutchison 3G UK Holdings Ltd. [3G UK Holdings], for a nominal amount and no gain or loss resulted from this transaction. On July 12, 2000, the Company waived its right to acquire 3.5% of the outstanding shares of 3G UK Holdings, for a net cash consideration of £51.1 million [\$75.4 million] and recognized a corresponding gain.

On December 24, 2001, the Company decided to dispose of its paging operation in Mexico and has relinquished its joint control of the investment. A loss of \$5.6 million has been recognized as a result of these actions.

#### **[c] Cumulative translation adjustment**

The movement in the cumulative translation adjustment account, reported as a reduction of shareholders' equity, includes the realization of \$145.0 million of the cumulative translation adjustment losses as part of the gain or loss on dispositions of Brazilian B-Band joint ventures and Dolphin and the partial realization from the expected sale of the Company's A-Band joint venture operations in Brazil. This was partly offset by the devaluation of the Brazilian Real as at December 31, 2001, the exchange rate to the Brazilian Real was \$0.4328 for R\$1 [\$0.5128 and \$0.5559 as at December 31, 2000 and 1999, respectively].



As at December 31, 2001	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$
<b>Property, plant and equipment</b>			
Network equipment	937,696	183,662	754,034
Buildings and leasehold improvements	30,348	6,805	23,543
Computer equipment and software	149,999	68,045	81,954
Other equipment	24,006	11,622	12,384
	1,142,049	270,134	871,915
<b>Licenses</b>	134,800	37,133	97,667
<b>Goodwill</b>	56,024	3,418	52,606

As at December 31, 2000	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$
<b>Property, plant and equipment</b>			
Network equipment	754,675	113,444	641,231
Buildings and leasehold improvements	23,297	3,838	19,459
Computer equipment and software	102,307	35,675	66,632
Other equipment	18,247	8,841	9,406
	898,526	161,798	736,728
<b>Licenses</b>	138,215	29,168	109,047
<b>Goodwill</b>	31,945	2,761	29,184

Included in buildings and leaseholds improvements are assets with a net carrying value of \$12.2 million as at December 31, 2001 [\$12.8 million -2000] that are financed through an obligation under a capital lease.

## FINANCING ARRANGEMENTS

The Company's short-term credit facilities consist of the following:

### Corporate Credit Facility

The Company's corporate credit facility of up to \$140.0 million was amended on July 3, 2001 such that the aggregate borrowing capacity is \$83.5 million and the maturity date of the facility is July 14, 2002. On July 18, 2001, the Company borrowed the remaining \$25 million available under the facility for which the Company is committed to use for further investment in ClearWave, of this commitment, \$10.9 million remains to be injected in ClearWave, as at December 31, 2001. The facility is collateralized by the shares of certain investees and bears interest at U.S. base rate plus a margin of 9.36% or LIBOR plus a margin of 10.0%. As at December 31, 2001, \$83.5 million was drawn [\$113.0 million was drawn as at December 31, 2000]. The weighted average rate of interest was 15.0% in 2001 [11.68% - 2000].

On February 4, 2002, the Company amended the terms of its corporate credit facility to allow an extension of the maturity of the facility from July 14, 2002 to December 15, 2002 at the Company's option subject to certain conditions including the granting of additional security and to the reduction of the availability under the facility from \$83.5 million to \$75 million. The Company repaid \$8.5 million of the facility on February 5, 2002.

#### **Operating Credit Facility of Operating Subsidiaries**

As at December 31, 2001, MobiFon has available uncommitted operating credit facilities totaling \$20 million and Český Mobil has an uncommitted operating credit facility of €7.0 million [\$6.2 million], none of which were drawn as at December 31, 2001 and December 31, 2000. The uncommitted short-term credit facility for €7.0 million bears interest at a rate of EURIBOR or LIBOR plus 0.65% per annum, depending on the drawing currency. The \$20 million facilities consist of a \$9.0 million overdraft facility and \$1.0 million for issuance of letters of guarantee to third parties through ABN AMRO (Romania) and a second \$10 million facility through Citibank (Romania). The \$9.0 million overdraft facility can be drawn in U.S. dollars bearing interest of LIBOR plus 1.5% per annum or in Romanian Lei bearing interest at the rate of the bank's cost of funds plus 5% per annum. The second \$10 million facility is repayable on demand and bears interest at the rate of the lender's U.S. dollar prime rate plus 3.05% per annum.

#### **Long-term Debt**

*As at December 31,*

	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>
<b>Corporate</b>		
14% Senior Guaranteed Notes	203,140	—
Series B 13 1/4% – Senior Discount Notes	497	313,477
Series C 10 1/2% – Senior Discount Notes	18	138,475
Other [Note 7]	3,524	11,746
	<b>207,179</b>	<b>463,698</b>
<b>MobiFon – Syndicated senior credit facility</b>		
Original facility	158,825	175,398
Expansion facility	71,963	81,094
	<b>230,788</b>	<b>256,492</b>
Subordinated loans, including accrued interest of \$7,726 and \$5,333 as at December 31, 2001 and 2000 respectively	17,726	15,333
Other	12,700	12,700
	<b>261,214</b>	<b>284,525</b>
<b>Český Mobil – Syndicated senior credit facility</b>		
Tranche "A" [€179.4 million and Koruna 2.5 billion – 2001, €89.7 million and Koruna 1.3 billion – 2000]	229,902	116,841
Tranche "B" [€26.6 million and Koruna 1.7 billion – 2001 and 2000]	71,902	70,386
	<b>301,804</b>	<b>187,227</b>
Financing under supply contracts to be refinanced by the syndicated senior credit facilities [€65,773 – 2001, €112,900 – 2000]	58,505	106,472
	<b>360,309</b>	<b>293,699</b>
	<b>828,702</b>	<b>1,041,922</b>
Less current portion	44,519	28,197
	<b>784,183</b>	<b>1,013,725</b>

#### **14% Senior Guaranteed Notes**

On September 19, 2001, the Company completed the exchange of \$379.5 million of 13 1/4% Senior Discount Notes due 2007 (\$324.5 million of accreted value) and \$167.0 million of 10 1/2% Senior Discount Notes due 2007 (\$148.5 million of accreted value) for \$50.0 million of cash and \$194.8 million of 14% Senior Guaranteed Notes (the "14% Notes") due December 30, 2003 resulting in the realization of a gain on forgiveness of debt of \$238.9 million.

The 14% Notes mature on December 30, 2003. Interest on the 14% Notes will accrue at a rate of 14% per annum from October 1, 2001. Interest will be payable semi-annually on each June 30 and December 30 commencing on December 30, 2001. Interest payable on June 30, 2002 will be paid either in cash or additional 14% Notes at the Company's option. The interest payment on December 30, 2001 was made by the issuance of \$6.7 million additional 14% Notes. The Company has the option to redeem the 14% Notes, at any time, in whole or in part, at a price equal to 100% of the principal amount plus accrued and unpaid interest. The 14% Notes are guaranteed by the Company's wholly-owned subsidiary Telesystem International Wireless Corporation N.V. [the "Guarantor"]. The guarantee is secured by a second priority lien on the capital stock of Telesystem International Wireless (Latin America) Inc., ["TIW Latin America"], a holding company which holds the Company's investments in its cellular operations in Brazil. The guarantee is also secured by a first priority lien on the capital stock of ClearWave, following the repayment in full of the Corporate Credit Facility, or should the Corporate Credit Facility not have been repaid by October 2, 2002, by a second priority lien on the capital stock of ClearWave.

The 14% Notes contain mandatory redemption provisions, which will require their repayment upon the sale of the Company's interests in either ClearWave or its direct or indirect interest in TIW Latin America; TIW do Brasil Ltda and Telpart. Furthermore, distributions from Telpart or ClearWave which aggregate to at least \$10.0 million, will trigger mandatory repayments second to the repayment of the corporate credit facility. The 14% Notes have negative covenants which, among others things, limits the Company's ability to incur indebtedness, create liens and requires the Company to make an offer to repurchase all or any part of the 14% Notes subsequent to a change in control. In addition, the 14% Notes prohibit the Company to reduce, under certain conditions, its ownership in ClearWave.

Additional 14% Notes will be issued to holders of such notes in the amount of approximately \$5.0 million on December 30, 2002 and approximately \$10.0 million on June 30, 2003 unless, on or prior to such dates, at least \$72.4 million in principal amount of 14% Notes have been redeemed or repurchased. Furthermore, the Company and the Guarantor have committed to file a registration statement with the United States Securities Exchange Commissions whereby the 14% Notes will be exchanged for identical freely tradable notes. In the event such registration does not become effective by March 18, 2002, the 14% Notes will accrue additional interest at the rate of 0.5% per annum, increasing to 1% per annum if the delay exceeds 90 days, until such date that the 14% Notes are successfully registered and the exchange is consummated.

The 14% Notes are accounted for using the effective interest rate method where the contingent additional 14% Notes is considered as an additional interest component in determining their effective interest rate. As a result, the effective interest rate on the 14% Notes is 17.21%.

#### ***Series B 13 1/4% – Senior Discount Notes***

In June 1997, the Company issued 13 1/4% Senior Discount Notes due on June 30, 2007, with a nominal value of \$380.0 million for gross proceeds of \$199.9 million, before issue costs of \$8.0 million, which has been reduced to approximately \$0.5 million in nominal value as a result of the above exchange. These notes were sold at a substantial discount from their principal amount with cash interest not accruing prior to June 30, 2002. Cash interest on these notes is payable semi-annually at a rate of 13 1/4% per annum on each June 30 and December 31 commencing December 31, 2002. As a result of the debt exchange described above, the nominal value of the 13 1/4% Senior Discount Notes outstanding at December 31, 2001 was \$0.6 million.

On or after June 30, 2002, the Company may redeem the Series B 13 1/4% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 106.625% on June 30, 2002 to 100.0% on June 30, 2005, plus accrued and unpaid cash interest, if any, to the redemption date.

#### ***Series C 10 1/2% – Senior Discount Notes***

In October 1997, the Company issued 10 1/2% Senior Discount Notes due on November 1, 2007, with a nominal value of \$167.0 million for gross proceeds of \$100.0 million, before issue costs of \$3.8 million, which has been reduced to approximately \$0.1 million in nominal value as a result of the above exchange. These notes were sold at a substantial discount from their principal amount with cash interest not accruing prior to November 1, 2002. Cash interest on these notes is payable semi-annually at a rate of 10 1/2% per annum on each May 1 and November 1 commencing May 1, 2003. As a result of the debt exchange described above, the nominal value of the 10 1/2% Senior Discount Notes outstanding at December 31, 2001 was a nominal amount of \$20 thousand.

On or after November 1, 2002, the Company may redeem the Series C 10 1/2% Senior Discount Notes, in whole or in part, at any time, at redemption prices expressed as percentages of principal amount at maturity, declining from 105.25% on November 1, 2002 to 100% on November 1, 2005, plus accrued and unpaid cash interest, if any, to the redemption date.

#### ***MobiFon***

The syndicated credit facilities include a \$10.0 million subordinated loan bearing interest at 15% maturing in 2003 and \$231.0 million [originally \$285.0 million] of senior loans bearing interest at LIBOR plus 2.25% to 5.25% repayable by installments through October 2006.

The syndicated senior credit facilities are collateralized by a pledge of the Company's and certain of the minority interest's shares in MobiFon, and by substantially all of the assets of MobiFon, except for a first ranking pledge of MobiFon's bank accounts in favor of the lenders under the operating credit facilities. The carrying value of these pledged assets as at December 31, 2001 is \$538.8 million. MobiFon entered into interest rate swap agreements pursuant to which \$171.9 million (\$183.3 million at December 31, 2000) of the above borrowings have effective fixed interest rates from 7.41% to 9.68% until April 2002. A further \$58.9 million (\$63.3 million at December 31, 2000) of the above borrowings have effective fixed interest rates ranging from 8.35% to 9.75% until April 2002 as a result of an agreement with the lenders. The weighted average effective interest rate on these senior loans is 9.12% in 2001 [2000 – 9.46%]. The risk of non-performance by counter-parties to the swap agreements is low, as the agreements have been concluded with large, credit worthy financial institutions registered in the European Union and the United States.

### **Český Mobil**

The syndicated credit facility is composed of two tranches. Tranche A is in the form of a committed revolving credit facility converting to a term loan of up to €269.1 million and Koruna 3.8 billion, [totaling \$344.9 million] carrying interest at a rate of EURIBOR plus 1.75% for Euro drawings and PRIBOR plus 1.75% for Koruna drawings, reimbursable by installments determined as a percentage of amounts drawn under the facility until June 2004 which will continue to be repaid until the maturity in December 2008. Tranche B consists of a term loan of up to €26.6 million and Koruna 1.7 billion, [totaling \$71.9million] carrying interest at EURIBOR plus 2.25% for Euro drawings and PRIBOR plus 2.25% for Koruna drawings, reimbursable by installments determined as a percentage of amounts drawn under the facility starting in December 2008 until the maturity in December 2009.

Český Mobil entered into interest rate and currency swaps arrangements pursuant to which €116.3 million [\$103.4 million] of the Euro based borrowings as at December 31, 2001 are effectively Koruna based and, together with an additional 3 billion Koruna [\$83.5 million] have effective fixed interest rates ranging from 8.59% to 9.98% until November 2005. Swaps have also been entered into on the €21.5 [\$19.1 million] draw which has the effect of fixing the Euro to Koruna conversion rate on the interest payments and changing the referenced interest rate from EURIBOR to PRIBOR. This €21.5 [\$19.1 million] and a further 300.5 million Koruna [\$8.4 million] are subject to interest rate option agreements which provide that the interest rate on these borrowings will not exceed 10%, and will be no lower than 5.89%, until November, 2005. The effective weighted average interest rate on this credit facility is 8.0% in 2001 [9.45% in 2000]. The currency swap position, represented by the difference in the translation of the debt using the forward rate as per the hedging contract and the spot rate as at December 31, 2001, totalled \$9.5 million and is included in other non-current liabilities in the balance sheet. The risk of non-performance by counter-parties to the swap agreements is low, as the agreements have been concluded with large, credit worthy financial institutions registered in the European Union and the United States.

The facility is collateralized by a pledge of TIW Czech's shares in Český Mobil, and by substantially all of the assets of Český Mobil. Drawings under this credit facility are subject to certain financial tests and ratios.

As a result of MobiFon's and Český Mobil's syndicated senior credit facilities, the majority of the Company's net assets are restricted from distribution to the Company, unless waivers are obtained.

Minimum annual principal repayments of long-term debt during the next five years as at December 31, 2001 are as follows:

	\$
2002	44,518
2003	277,982
2004	81,064
2005	96,444
2006	82,880

### **Covenants**

Under the debt agreements and credit facilities described above, the Company is committed to respect certain financial covenants including debt to operating cash flows and certain negative covenants including limitations on the ability to incur indebtedness, pay dividends, use proceeds from sale of assets, make certain other payments, create liens, sell assets and engage in mergers. Limitations also exist with respect to the ability of certain subsidiaries or investees to transfer funds in the form of dividends, loans or otherwise to the Company. The corporate senior secured credit facility and the 14% Notes have cross default provisions which, under certain circumstances, could accelerate their reimbursement if the reimbursement of other loans of the Company are accelerated as a result of a default.

### Authorized

An unlimited number of Subordinate Voting Shares. Each share carries the right to cast one vote. An unlimited number of Multiple Voting Shares. Each share carries the right to cast 8.0874 votes and is convertible, at the holder's option, into one Subordinate Voting Share. Conversion may also occur under other limited circumstances. In addition there is an unlimited number of non-voting Preferred Shares, issuable in series with rights and conditions as may be determined by the Board of Directors.

Pursuant to rights of subscription attached to the Multiple Voting Shares, holders of such shares have the right to purchase from the Company a certain number of Multiple Voting Shares to maintain the percentage of voting rights attached to their Multiple Voting Shares following issuance of Subordinate Voting Shares.

### Issued

	Multiple Voting Shares		Subordinate Voting Shares		Total	
	Number	\$	Number	\$	Number	\$
Balance December 31, 1998	734,921	9,006	13,928,256	518,847	14,663,177	527,853
Issuance of shares for cash	—	—	5,310	298	5,310	298
Balance December 31, 1999	734,921	9,006	13,933,566	519,145	14,668,487	528,151
RegioKorn acquisition	—	—	130,384	27,874	130,384	27,874
MobiFon acquisition	—	—	86,707	9,056	86,707	9,056
Interest payment of convertible debentures	—	—	144,062	11,663	144,062	11,663
Issuance of shares for cash	54,283	8,442	696,656	99,453	750,939	107,895
Balance as at December 31, 2000	789,204	17,448	14,991,375	667,191	15,780,579	684,639
Issuance of shares for cash	28,258	667	518,325	11,648	546,583	12,315
Balance as at December 31, 2001	817,462	18,115	15,509,700	678,839	16,327,162	696,954

On June 22, 2001, the Company's shareholders adopted a special resolution approving a consolidation of the Company's Subordinated Voting and Multiple Voting Shares on the basis of one post-consolidated share for five pre-consolidated shares. As a result, the exchange ratio of the 7% equity subordinated debentures, of the 7.75% convertible subordinated debentures, the Units and the number and exercise price of all stock options issued under its stock option plan for senior executives, key employees and directors have also been adjusted to reflect the consolidation. All share and per share amounts as well as terms and conditions of debt and equity instruments included in the consolidated financial statements have been adjusted to reflect the share consolidation.

In connection with its Recapitalization Plan, on February 5, 2002, all of the Multiple Voting Shares issued were converted 1:1 into Subordinate Voting Shares.

### ***Special Warrants***

On December 14, 2001, in connection with an agreement between Telesystem Ltd, the Company's largest shareholder, and certain of the Company's other stakeholders (the "Agreement"), the Company issued 24.5 million warrants at a negotiated price of approximately \$0.61 each, exercisable for one Subordinate Voting Share or one non-voting preferred share convertible into common equity of the Company at no additional cost ("Special Warrants") for cash consideration of \$14.5 million net of issuance costs of \$0.5 million. [See Note 18]

### ***Stock Option Plans for Senior Executives, Key Employees and Directors***

As at December 31, 2001, the Company had an Employee Stock Option Plan [the "Plan"], to issue up to 1.2 million Subordinate Voting Shares at the market price on the date of grant. All of the options granted under the Plan may be exercised within a maximum period of seven years following the date of grant. Options may be exercised as follows: (i) on or after the second anniversary of the date of grant as to 25.0% of the optioned shares or any part thereof; (ii) on or after the third anniversary of the date of grant as to an additional 50.0% of the optioned shares or any part thereof; and (iii) on or after the fourth anniversary of the date of grant, as to the remaining 25.0% of the optioned shares or any part thereof.

As at December 31, 2001, the Company also had a stock option plan for directors of the Company [the "Directors Stock Option Plan"]. Directors who are eligible to receive options to purchase Subordinate Voting Shares under the Directors Stock Option Plan are members of the Board of Directors of the Company who are not officers or employees of the Company. The provisions of the Directors Stock Option Plan are identical in all material respects to the provisions of the Plan except that the maximum number of Subordinate Voting Shares that are issuable under the Directors Stock Option Plan will not exceed 80,000 Subordinate Voting Shares and that options may be exercised on or after the first anniversary of the date of grant as to 100.0% of the optioned shares or any part thereof.

The Agreement also contemplates that, subject to shareholders' approval, the Company will amend the terms of the employee stock option plan to provide for the issuance of up to 31.2 million additional options. These options will be granted in two tranches: the first one for 15 million options exercisable at \$0.79 per Subordinate Voting Shares and the second tranche of 16.2 million options exercisable at \$1.20 per Subordinate Voting Shares.

A summary of the status of the Company's stock option plans is presented below:

<b>Options to Purchase Subordinate Voting Shares</b>		
	<b>Number of Options</b>	<b>Weighted average exercise price [in Cdn \$]</b>
<i>Outstanding, December 31, 1998</i>	291,060	110.35
<i>Granted in 1999</i>	73,634	152.90
<i>Forfeited in 1999</i>	(41,614)	120.90
<i>Exercised in 1999</i>	(5,310)	90.05
<i>Outstanding, December 31, 1999</i>	317,770	118.60
<i>Granted in 2000</i>	394,744	106.70
<i>Forfeited in 2000</i>	(27,622)	160.00
<i>Exercised in 2000</i>	(36,655)	103.75
<i>Balance as at December 31, 2000</i>	648,237	110.45
<i>Granted in 2001</i>	104,780	28.47
<i>Forfeited in 2001</i>	(269,720)	96.57
<i>Exercised in 2001</i>	—	—
<i>Balance as at December 31, 2001</i>	483,297	101.07

The following table summarizes information about stock options outstanding as at December 31, 2001:

<b>Range of Exercise Prices [in Cdn \$]</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number outstanding as at December 31, 2001</b>	<b>Weighted average contractual life</b>	<b>Weighted average exercise price [in Cdn \$]</b>	<b>Number exercisable as at December 31, 2001</b>	<b>Weighted average exercise price [in Cdn \$]</b>
0.50 to 32.50	47,919	6.1 years	28.12	9,690	32.50
45.00 to 65.75	150,356	5.9 years	46.75	41,722	46.72
67.50 to 97.50	76,044	2.6 years	86.31	72,901	86.20
108.75 to 160.00	106,381	3.3 years	135.56	90,201	135.59
162.50 to 231.25	97,151	5.2 years	183.91	9,499	200.60
231.25 to 340.00	5,446	4.7 years	297.01	1,276	294.11
0.50 to 340.00	483,297	4.7 years	101.07	225,289	102.35

In addition, a total of 4,745 options to purchase Subordinate Voting Shares under the Plan have been reserved for grant on certain dates throughout 2002 [20,568 in 2000 for 2001 and 21,547 in 1999 for 2000]. Those options will be granted with exercise prices at the market price of the Subordinate Voting Shares on such dates.



### Earnings per share

The reconciliation of the numerator and denominator for the calculation of earnings (loss) per share is as follows:

For the years ended December 31,	2001	2000	1999
	\$	\$	\$
<b>Numerator</b>			
Income (loss) from continuing operations	162,389	(19,672)	(74,641)
Interest paid in shares on convertible debentures	(11,625)	(11,663)	—
Accretion of equity component of convertible debentures	(16,937)	(12,693)	(5,044)
Income (loss) from continuing operations – basic	133,827	(44,028)	(79,685)
Effect of conversion of all convertible debentures	29,269		
Income from continuing operations – diluted	163,096		
Net loss	(253,714)	(355,356)	(154,802)
Interest paid in shares on convertible debentures	(11,625)	(11,663)	
Accretion of equity component of convertible debentures	(16,937)	(12,693)	(5,044)
Net loss attributable to common shareholders	(282,276)	(379,712)	(159,846)
<b>Denominator</b>			
Weighted average number of common shares and share equivalent outstanding (in thousands)	17,338	15,556	14,665
Effect of conversion of all convertible debentures	13,785		
Dilutive effect of Units	9,174		
Weighted average number of common shares outstanding – diluted	40,297	15,556	14,665

### 2. CONVERTIBLE DEBENTURES AND UNITS (SEE NOTE 18)

Subsequent to December 31, 2001, in connection with the Company's Recapitalization Plan, substantially all of the debentures and 73.3% of Units described below have been exchanged for Subordinate Voting Shares and warrants of the Company. [See Note 18].

#### 7% Equity Subordinated Debentures

On February 15, 1999, the Company issued Cdn \$150.0 million [\$98.6 million] of 7% Equity Subordinated Debenture ("ESD") due February 15, 2002 for net cash proceeds of \$95.8 million. The debentures bear interest at the rate of 7% per annum payable semi-annually, in August and February. Each debenture will be convertible on maturity, at the option of the holder, into Subordinate Voting Shares of the Company. The conversion entitlement allows holders to participate in the potential appreciation of the share price up to a maximum of Cdn \$163.90 per share, being a maximum conversion value of Cdn \$1,425 per Cdn \$1,000 principal amount of debentures. The Company has the option, in lieu of delivering Subordinate Voting Shares upon conversion of the debentures, to pay the conversion value in cash. The Company also has the option to repay the principal amount at maturity by delivering Subordinate Voting Shares in lieu of cash.

The debt component was determined by discounting the semi-annual interest coupons at the Company's prevailing borrowing market rate for debt without such conversion features. Interest expense has been computed at the discount rate on the debt component. The costs related to the debt component are being amortized over the term of the debt. [See Note 18].

### **7.75% Convertible Subordinated Debentures**

On March 8, 2000, the Company issued \$300.0 million of 7.75% convertible subordinated debentures for net cash proceeds of \$291.0 million. The conversion entitlement allows the holders to convert such debentures, or any portion of the principal amount thereof into Subordinate Voting Shares at a rate of 4.73372 Subordinate Voting Shares per \$1,000 of principal representing a conversion price of \$211.25 per Subordinate Voting Share. The debentures bear interest at the rate of 7.75% per annum payable semi-annually, commencing on September 9, 2000, at the option of the Company, in cash or securities. If the Company elects to pay the coupon in securities, the debenture holders would then have the option to receive Subordinate Voting Shares of the Company determined as a function of the 20-day weighted average price of such shares, or additional debentures. At maturity, in 2010, the Company will have the option to repay the principal in cash or through the issuance of additional Subordinate Voting Shares. [See Note 18].

### **Units**

On February 14, 2001, the Company issued 43.8 million Units, including 23.6 million to Telesystem Ltd., for gross proceeds of Cdn \$396.5 million [\$260.4 million] before issue costs of Cdn \$18.2 million [\$11.9 million] pursuant to an offer for sale under a rights issue to holders of the Company's Multiple and Subordinate Voting Shares. Each Unit consists of one class A Subordinate Voting Share of ClearWave, and five Units entitle the holder to acquire one Subordinate Voting Share of the Company for no additional consideration by tendering five Units back to the Company at anytime or prior to June 30, 2002 [the exchange option]. The Company may redeem the Units if ClearWave sells the majority of its assets. The redemption price of the Units is equal to the issuance price of the Units plus a 30.0% annual return premium. Holders of the Units will be deemed to have exercised their exchange option if less than \$100 million of the Units, based on the issuance price, have not been exercised. On February 15, 2001, the Company issued 2.1 million additional Units in connection with the acquisition shares of MobiFon, held by minority shareholders as mentioned in Note 4b. As at December 31, 2001, the Units are accounted for as equity under Canadian GAAP. Consequently, although the Company's equity interest decreased to 45.5% from 100.0%, the Company continues to consolidate 100.0% of the results of Clearwave. [See Note 18].

### **SUPPLEMENTARY INFORMATION ON CONSOLIDATED STATEMENTS OF INCOME**

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Depreciation and amortization</b>			
Property, plant & equipment	111,161	81,301	53,778
Licenses	7,968	7,930	7,228
Goodwill	2,879	1,153	1,153
	<b>122,008</b>	<b>90,384</b>	<b>62,159</b>
<b>Interest expense</b>			
Interest on long-term debt	83,004	81,056	69,810
Other interest and financial charges	38,253	14,633	4,135
	<b>121,257</b>	<b>95,689</b>	<b>73,945</b>
<b>Other information</b>			
Bad debt expense	10,544	10,373	4,091
Advertising costs	25,145	29,028	19,898

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

As at December 31,	2001	2000
	\$	\$
<b>Deferred tax assets</b>		
Loss carryforwards – ClearWave and its subsidiaries	53,945	52,355
Loss carryforwards – Corporate	36,571	69,263
Carrying value of liabilities in excess of their tax value	9,063	13,869
Tax value of assets in excess of their carrying value	16,770	8,700
Total deferred tax assets	116,349	144,187
Valuation allowance	(112,801)	(144,086)
Deferred tax assets	3,548	101
Deferred tax liabilities		
Carrying value of assets in excess of their tax value	(3,548)	(101)
Net deferred tax assets	-	-

As at December 31, 2001, the Company had net operating loss carryforwards, which are available to reduce taxable income in future years, as follows:

	Operating Subsidiaries	Corporate
	\$	\$
Losses expiring:		
2004	4,600	-
2005	5,200	-
2006	5,400	-
2007	76,800	7,800
2008	63,600	88,400
	155,600	96,200

The reconciliation of income tax computed at the statutory Canadian tax rates with income tax expense from continuing operations is as follows:

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Tax expense (income) at statutory rate</i>	<b>44,268</b>	(31,613)	(34,419)
<i>Tax deductible interest on convertible debentures</i>	<b>(10,800)</b>	(8,836)	(1,766)
<i>Non taxable gain (deductible loss) on investments</i>	<b>4,082</b>	(32,554)	(14,367)
<i>Differences in effective rate attributable to income taxes of other countries</i>	<b>(4,850)</b>	(1,173)	2,377
<i>Differences related to assets and liabilities re-measured from local currency into functional currency</i>	<b>2,747</b>	9,444	(9,454)
<i>Effect of change in tax rate in Romania from 38% to 25% in 1999</i>	<b>-</b>	-	19,811
<i>Other permanent differences</i>	<b>(4,162)</b>	1,507	1,238
<i>Valuation allowance</i>	<b>(31,285)</b>	(63,225)	(36,580)
	<b>-</b>	-	-

#### 11. SUPPLEMENTAL CASH FLOW INFORMATION

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Changes in operating assets and liabilities</b>			
<i>Trade debtors</i>	<b>(12,561)</b>	(11,900)	(4,209)
<i>Inventories</i>	<b>(4,842)</b>	(2,131)	1,509
<i>Prepaid expenses and other current assets</i>	<b>2,879</b>	(15,065)	3,480
<i>Trade creditors and accrued liabilities</i>	<b>(49,655)</b>	96,354	7,084
<i>Deferred revenues</i>	<b>12,223</b>	9,883	(901)
	<b>(51,956)</b>	77,141	6,963
<b>Significant non-cash investing and financing activities</b>			
<i>Acquisition of property, plant and equipment financed under supply contracts in Český Mobil</i>	<b>58,505</b>	106,472	-
<i>Issuance of shares in connection with interest payments on convertible debentures</i>	<b>11,625</b>	11,663	-
<i>Issuance of shares, Units and forgiveness of debt in connection with the acquisition of MobiFon's shares from non-controlling interest (Note 4b)</i>	<b>17,297</b>	15,221	-
<b>Other cash flow information</b>			
<i>Interest paid</i>	<b>66,132</b>	36,793	23,724
<i>Income tax paid</i>	<b>-</b>	-	-

As a result of the decision to discontinue certain operations [see Note 15], the Company remains with two reportable segments: cellular operations in Romania and cellular operations in the Czech Republic. The Company's reportable segments are strategic business units that operate in different countries. They are managed separately because each business requires different marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on service revenues, operating income (loss) and operating income (loss) before depreciation and amortization.

Information about the reportable segments, which is reconciled to consolidated operating income (loss), acquisitions of and carrying value of property, plant and equipment, licenses and goodwill and total assets, is summarized as follows:

	<b>Romania Cellular</b>	<b>Czech Republic Cellular</b>	<b>Corporate and other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>For the year ended December 31, 2001</b>				
<b>Revenues</b>				
Services	359,868	125,928	9,434	495,230
Equipment	12,475	18,037	483	30,995
	<b>372,343</b>	<b>143,965</b>	<b>9,917</b>	<b>526,225</b>
Cost of services	69,835	97,275	4,129	171,239
Cost of equipment	27,236	22,323	747	50,306
Selling, general and administrative expenses	88,836	65,921	28,356	183,113
<b>Operating income (loss) before depreciation and amortization</b>	<b>186,436</b>	<b>(41,554)</b>	<b>(23,315)</b>	<b>121,567</b>
Depreciation and amortization	77,791	42,562	1,655	122,008
<b>Operating income (loss)</b>	<b>108,645</b>	<b>(84,116)</b>	<b>(24,970)</b>	<b>(441)</b>
<b>Acquisitions of property, plant and equipment and licenses including non-cash items</b>	<b>122,360</b>	<b>109,211</b>	<b>172</b>	<b>231,743</b>
<b>Property, plant and equipment, licenses and goodwill as at December 31, 2001</b>	<b>537,739</b>	<b>483,604</b>	<b>845</b>	<b>1,022,188</b>
<b>Total assets of continuing operations as at December 31, 2001</b>	<b>648,946</b>	<b>542,159</b>	<b>63,471</b>	<b>1,254,576</b>

	<b>Romania Cellular</b>	<b>Czech Republic Cellular</b>	<b>Corporate and other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>For the year ended December 31, 2000</b>				
<b>Revenues</b>				
Services	299,470	21,508	11,493	332,471
Equipment	8,097	12,529	955	21,581
	307,567	34,037	12,448	354,052
Cost of services	62,366	36,654	3,705	102,725
Cost of equipment	18,347	15,969	9,667	43,983
Selling, general and administrative expenses	96,735	63,418	41,829	201,982
<b>Operating income (loss) before depreciation and amortization</b>	130,119	(82,004)	(42,753)	5,362
Depreciation and amortization	65,965	22,056	2,363	90,384
<b>Operating income (loss)</b>	64,154	(104,060)	(45,116)	(85,022)
<b>Acquisitions of property, plant and equipment and licenses including non-cash items</b>	92,510	345,962	812	439,284
<b>Property, plant and equipment, licenses and goodwill as at December 31, 2000</b>	462,443	395,025	17,491	874,959
<b>Total assets of continuing operations as at December 31, 2000</b>	543,782	527,477	80,197	1,151,456
<b>For the year ended December 31, 1999</b>				
<b>Revenues</b>				
Services	211,359	—	15,849	227,208
Equipment	22,606	—	2,011	24,617
	233,965	—	17,860	251,825
Cost of services	50,706	—	7,948	58,654
Cost of equipment	32,617	—	4,032	36,649
Selling, general and administrative expenses	95,731	4,712	32,437	132,880
<b>Operating income (loss) before depreciation and amortization</b>	54,911	(4,712)	(26,557)	23,642
Depreciation and amortization	52,238	15	9,906	62,159
<b>Operating income (loss)</b>	2,673	(4,727)	(36,463)	(38,517)
<b>Acquisitions of property, plant and equipment and licenses including non-cash items</b>	141,780	63,102	3,746	208,628

Corporate and other includes revenues generated from the Company's cellular operations in India and its paging operations in Mexico.

**Commitments under long-term operating leases for continuing operations**

The future minimum lease payments for the next 5 years, substantially all of which are denominated in foreign currencies are as follows:

	\$
2002	14,341
2003	11,127
2004	9,016
2005	5,928
2006	5,454
2007	4,854
Total	50,720

Rental expenses amounted to \$12.4 million, \$13.4 million and \$13.5 million in 2001, 2000 and 1999, respectively.

**Commitments under supply contracts for continuing operations**

As at December 31, 2001, the Company's subsidiaries have commitments of approximately \$62 million under other supply and installation contracts.

**Minority shareholder rights**

In the event there has not been an initial public offering of the shares of MobiFon by October 1, 2004, a minority shareholder of MobiFon may require the Company to make an offer to acquire the minority shareholder's shares. The Company may also require the minority shareholder to sell its shares of MobiFon. The purchase price of such shares will be their fair market value as determined by an independent valuation and shall be payable, at the Company's option, in cash or shares of the Company.

As part of the creation of Český Mobil, a minority shareholder was given a put option and, as a result, TIW Czech may be required to purchase the Český Mobil shares owned by this minority shareholder for an amount equal to the amount paid for such shares by the minority shareholder plus interest of 7.0% per annum. This put option is exercisable during a period of two years beginning in October 2001. As at December 31, 2001, this minority shareholder has contributed \$13 million to the equity of Český Mobil, and this amount is included with non-controlling interest on the balance sheet.

**License agreements for continuing operations**

The Company's operations are committed to pay minimum annual spectrum fees of approximately \$11.9 million. The conditions to the various license agreements require the Company's investees to substantially meet the deployment plans set out in their license agreements and provide a certain level of services in their relative coverage areas.

### ***Fair Value***

The carrying amounts of cash and cash equivalents, trade debtors and trade creditors approximate their fair values due to the short-term maturity of these instruments.

The carrying amounts of short-term loans and long-term debt other than the 14% Notes approximate their fair values since their interest rates fluctuate with market interest rates or are similar to interest rates currently available to the Company. [See Note 16g for the fair values of derivative financial instruments].

As at December 31, 2001, the fair value and effective interest rate of the 14% Notes, based on their trading on the over-the-counter market, were approximately \$151.1 million and 32.0%, respectively.

### ***Credit Risk***

The concentration of credit risk with respect to trade debtors is limited due to the composition of the customer base, which includes a large number of individuals and businesses. Cash and cash equivalents are contracted with a limited number of financial institutions. However, risk of losses is unlikely because the Company has a policy of dealing only with large, creditworthy institutions.

### ***Currency Risk***

MobiFon operates in a developing economy with high rates of inflation and significant currency devaluation. There is a consequent risk of loss in value in respect to net monetary assets held in Romanian Lei. As at December 31, 2001, the net monetary position held in Romanian Lei and expressed in U.S. dollars was \$7.8 million [\$12.3 million as at December 31, 2000].

## ***DISCONTINUED OPERATIONS***

### ***ESMR/SMR Operations***

On July 27, 2001, Dolphin and certain of its subsidiaries initiated legal proceedings to reach compromises with its creditors with the intent to utilize this process to restructure its balance sheet and to propose company voluntary arrangements to creditors. An administration order was made by the court and representatives from the firm Kroll Phillips have been appointed administrators of Dolphin. The financial position and results of operations of Dolphin up to July 27, 2001 have been reported in these financial statements as discontinued operations.

The proceedings have no legal implications on the Company or its continuing cellular operations, which are conducted by separate subsidiaries. The Company has taken the necessary steps and obtained the necessary amendments to avoid cross defaults under its own financing arrangements from any defaults by Dolphin or any of its subsidiaries.

### ***Brazilian cellular joint venture operations***

On March 5, 2002, the Company adopted a formal plan to dispose of its Brazilian cellular joint venture operations [the "Plan"] by way of a sale of its equity interest within the next twelve months. The proceeds from the sale will mainly be used to reimburse the Company's corporate debt. The financial position and results of operations of the Brazilian cellular joint venture operations have been reported in these financial statements as discontinued operations.

In July 2000, the Company and other partners initiated common legal proceedings in order to invalidate certain changes to the ownership structure of Telpart effected by one of the partners which, according to the Company and other partners, contravened the general telecommunications law and breached certain agreements. The Company cannot predict the outcome of the legal proceedings which may affect its ability to exercise joint control over Telpart and to realize on its investment.



The loss from discontinued operations is presented net of income tax expenses (recovery) of (\$30.7) million, (\$13.0) million and \$8.5 million in 2001, 2000 and 1999, respectively. For the year ended December 31, 2001, the loss from discontinued operations amounts to \$ 416.1 million of which \$446.8 million and an income of \$30.7 million respectively, related to ESMR/SMR operations and Brazilian cellular joint ventures operations. The ESMR/SMR operations include an impairment charge for assets of \$264.8 million and a loss of \$4.0 million on deconsolidation of Dolphin on July 27, 2001. The Brazilian joint ventures cellular operations include a net gain of \$95.4 million from the sale on March 31, 2001 of the Company's 16.3% equity interest in its two Brazilian B-Band joint ventures, for cash proceeds of \$153.3 million, which amount reduced cash used in discontinued operations in 2001. It also includes a loss of \$15.5 million related to the estimated loss of operations and costs from the measurement date to the date of disposal and a loss of \$27.2 million as a result of a partial realization on the cumulative translation accounts as the Company estimates that such amount will not be recovered from the sale of the Company's A-Band joint venture operations in Brazil.

The revenues and operating loss from discontinued operations are as follows:

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b><i>ESMR/SMR Operations</i></b>			
Revenues	<b>45,834</b>	90,694	97,330
Operating loss	<b>(425,377)</b>	(284,092)	(148,355)
<b><i>Proportionately consolidated Brazilian joint ventures</i></b>			
Revenues	<b>318,532</b>	361,133	246,268
Operating loss	<b>(50,304)</b>	(1,277)	(10,154)

The consolidated balance sheets include the following amounts related to the discontinued operations

<i>As at December 31,</i>	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>
<b><i>Current Assets</i></b>		
Cash and cash equivalents	<b>110,168</b>	177,819
Trade debtors	<b>43,349</b>	84,049
Prepaid and other current assets	<b>28,530</b>	143,114
	<b>182,047</b>	404,982
<b><i>Non-current Assets</i></b>		
Property, plant equipment, licenses and goodwill	<b>450,502</b>	1,690,981
Other non-current assets	<b>19,541</b>	46,746
	<b>470,043</b>	1,737,727
<b><i>Current Liabilities</i></b>		
Trade creditors and accrued liabilities	<b>54,880</b>	370,125
Other current liabilities	<b>16,802</b>	105,914
Current portion of long-term debt	<b>36,045</b>	153,483
	<b>107,727</b>	629,522
<b><i>Non-current Liabilities</i></b>		
Long-term debt	<b>193,134</b>	841,069
Non-controlling interest	<b>173,598</b>	187,259
Other non-current liabilities	<b>14,700</b>	37,149
	<b>381,432</b>	1,065,477

The above include amounts related to proportionately consolidated Brazilian joint venture operations as follows:

<i>As at December 31,</i>	<b>2001</b>	<b>2000</b>
	<b>\$</b>	<b>\$</b>
<i>Current assets</i>	<b>182,047</b>	206,095
<i>Non current assets</i>	<b>470,043</b>	664,741
<i>Current liabilities</i>	<b>99,315</b>	240,069
<i>Non-current liabilities</i>	<b>381,432</b>	382,325

In addition, the cumulative translation adjustment account presented in the shareholders' equity includes \$85.2 million and \$149.9 million related to discontinued operations as at December 31, 2001 and 2000, respectively.

Included in current liabilities above, is the Company's proportionate share of \$46.2 million related to financing arrangements of Tele Norte Celular Participações S.A., which are governed by financial ratio covenants measured in U.S. dollars. As a result of the significant devaluation of the Brazilian Real, from \$0.51 as at December 31, 2000 for one Real to \$0.43 for one Real as at December 31, 2001, the Company estimates that certain of these financial ratios may not be met at any reporting date. In the event that such ratios are not met and the financial ratio covenants are not renegotiated or waived, there could be an acceleration of certain of the debts of our affiliates in Brazil. The Company has taken the necessary steps to avoid cross defaults under its own financing arrangements from any defaults by Telpart or any of its subsidiaries.

Cash used in discontinued operations include the Company's interest in proportionately consolidated Brazilian joint ventures as follows:

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Operating activities</i>	<b>46,960</b>	165,473	57,690
<i>Investing activities</i>	<b>(88,132)</b>	(139,506)	(91,412)
<i>Financing activities</i>	<b>37,182</b>	19,503	39,661
	<b>(3,990)</b>	45,470	5,939

Cash used in discontinued operations also include the acquisition of SMR operations in Germany and U.K., for \$34.6 million in 1999 and \$121.2 million in 1998. In connection with one of these acquisitions, a subsidiary issued \$28.1 million of its own shares in 1999. As a result of shares issued to non-controlling interest in Dolphin and its German subsidiary in 1999 for an aggregate cash amount of \$233 million, dilution gains of \$152.2 million were recognized and included with loss on discontinued operations.

These financial statements were prepared in accordance with accounting principles generally accepted in Canada ["Canadian GAAP"]. The following material adjustments to the Company's financial statements would be required to conform with accounting principles generally accepted in the United States ["U.S. GAAP"]:

**Reconciliation of consolidated net loss**

For the years ended December 31,	2001	2000	1999
	\$	\$	\$
Income (loss) from continuing operations under Canadian GAAP	162,389	(19,672)	(74,641)
Gain on forgiveness of debt under Canadian GAAP [i]	(238,940)	—	—
Discontinued operations – Brazil [j]	72,711	(62,186)	(90,845)
Convertible debentures [c]	(25,709)	(22,098)	(9,735)
<b>Loss from continuing operations under U.S. GAAP</b>	<b>(29,549)</b>	<b>(103,956)</b>	<b>(175,221)</b>
Loss from discontinued operations under Canadian GAAP	(416,103)	(335,684)	(80,161)
Discontinued operations - Brazil [j]	(30,728)	62,186	90,845
<b>Income (loss) from discontinued operations under U.S. GAAP</b>	<b>(446,831)</b>	<b>(273,498)</b>	<b>10,684</b>
<b>Loss before extraordinary item under U.S. GAAP</b>	<b>(476,380)</b>	<b>(377,454)</b>	<b>(164,537)</b>
Extraordinary item:			
Gain on forgiveness of debt under U.S. GAAP [i]	156,443	—	—
<b>Net loss under U.S. GAAP</b>	<b>(319,937)</b>	<b>(377,454)</b>	<b>(164,537)</b>
<b>Basic and diluted income (loss) per share:</b>			
Income (loss) from continuing operations	(1.70)	(6.68)	(11.95)
Loss from discontinued operations	(25.77)	(17.58)	0.73
Extraordinary item	9.02	—	—
<b>Net loss</b>	<b>(18.45)</b>	<b>(24.26)</b>	<b>(11.22)</b>

**Reconciliation of consolidated cash flow captions**

There are no material differences between Canadian GAAP and U.S. GAAP which affect the captions of the cash flow statements except that cash used in investing activities would decrease by \$153.3 million in 2001 due to the sale of the Company's equity interest in the Brazilian B-Band joint ventures and increase by \$155.7 million and \$121.6 million due to funds invested by the Company in its Brazilian cellular joint ventures in 2000 and 1999, respectively and cash used in discontinued operations would be adjusted by a corresponding amount.

# **Reconciliation of consolidated balance sheets**

As at December 31,	2001 Canadian GAAP	2001 Adjustments	2001 U.S. GAAP	2000 U.S. GAAP
	\$	\$		\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	85,460	(392) [b]	85,068	127,063
Trade debtors	48,759	-	48,759	33,485
Inventories	15,385	-	15,385	10,544
Prepaid expenses	22,012	-	22,012	16,427
Deferred tax assets	3,548	-	3,548	-
Amounts due from joint ventures	-	1,043 [b]	1,043	3,049
Current assets related to discontinued operations	182,047	(182,047) [i]	-	23,052
Other current assets	14,546	-	14,546	198,888
<b>Total current assets</b>	<b>371,757</b>	<b>(181,396)</b>	<b>190,361</b>	<b>412,508</b>
Property plant and equipment	871,915	-	871,915	835,440
Licenses	97,667	-	97,667	-
Goodwill	52,606	-	52,606	24,853
Non-current assets related to discontinued operations	470,043	(470,043) [i]	-	1,071,982
Deferred financing costs	25,224	7,412 [c]	32,636	45,593
Investments and other assets	17,454	(5,171) [b]	191,916	275,244
		179,633 [i]		
<b>Total assets</b>	<b>1,906,666</b>	<b>(469,565)</b>	<b>1,437,101</b>	<b>2,665,620</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>				
<b>Current liabilities</b>				
Short-term loans	83,500		83,500	113,000
Trade creditors and accrued liabilities	107,327	(246) [b]	131,122	176,608
		21,253 [c]		
		2,788 [g]		
Deferred revenues	32,370	-	32,370	17,995
Current portion of long-term debt	44,519	90,936 [c]	135,455	21,988
Current liabilities for discontinued operations	107,727	(104,815) [i]	2,912	368,371
<b>Total current liabilities</b>	<b>375,443</b>	<b>9,916</b>	<b>385,359</b>	<b>697,962</b>

As at December 31,	2001 Canadian GAAP	2001 Adjustments	2001 U.S. GAAP	2000 U.S. GAAP
	\$	\$		\$
Long-term debt	784,183	300,000 [c]	1,166,679	1,409,674
		82,496 [i]		
Other non-current liabilities	14,775	20,625 [g]	30,083	-
		(5,317) [b]		
Deferred tax liabilities	3,548	-	3,548	-
Non-controlling interest	178,228	(16,653) [g]	161,575	167,960
Non-current liabilities from discontinued operations	381,432	(381,432) [j]	-	704,234
Units	-	260,843 [h]	260,843	-
<b>Shareholders' equity (deficiency)</b>				
Share capital	696,954	-	696,954	684,639
Units	260,843	(260,843) [n]	-	-
Warrants	14,502	-	14,502	-
Additional paid-in capital	-	78,655 [a]	78,655	78,655
Equity component of convertible debentures	405,195	(405,195) [c]	-	-
Deficit	(1,126,015)	34,673 [c]	(1,244,764)	(924,734)
		23,288 [c]		
		(78,655) [c]		
		(31,833) [c]		
		(25,709) [c]		
		(82,496) [i]		
Other comprehensive income:		41,983 [j]		
Cumulative translation adjustment	(82,422)	(27,150) [j]	(109,572)	(152,770)
Fair value of derivative instrument	-	(6,761) [g]	(6,761)	-
<b>Total shareholders' equity (deficiency)</b>	<b>169,057</b>	<b>(740,043)</b>	<b>(570,986)</b>	<b>(314,210)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>1,906,666</b>	<b>(469,565)</b>	<b>1,437,101</b>	<b>2,665,620</b>

**[a] Convertible shares**

In 1997, under U.S. GAAP, shares that were convertible based on a conversion factor which depended upon the level of the annual internal rate of return on funds invested in equity, required that the excess, if any, of the estimated fair market value of the shares over their carrying value be recorded as an expense over the vesting period, when it became probable that they would be converted. In 1997, an amount of \$78.7 million was expensed for U.S. GAAP purposes, with a corresponding increase in additional paid-in capital. This transaction was a non-cash transaction with no effect on cash flows and total equity of the Company.

**[b] Investments in joint ventures**

The Company accounts for investments in joint ventures using the proportionate consolidation method. Under U.S. GAAP, such investments are accounted for using the equity method. This results in reclassifications of balance sheet captions which are illustrated in the balance sheet reconciliation as presented above. Such reclassification has no impact on net loss and shareholders' equity.

**[c] Convertible debentures**

**7% Equity Subordinated Debentures**

Under Canadian GAAP, the debt component of the 7% equity subordinate debentures due February 15, 2002 was determined and accounted for separately from the equity component. The debt component was determined by discounting the semi-annual interest coupons at the Company's prevailing borrowing market rate for debt without such conversion features. Interest expense has been computed at the discount rate on the debt component. Under Canadian GAAP, debt issue costs were proportionally allocated between the debt and equity components. The costs related to the debt component are being amortized over the term of the debt. Unrealized foreign currency gains and losses from the translation of the debt component are deferred and amortized over the life of the convertible debentures.

**7.75% Convertible Equity Subordinate Debentures**

Under Canadian GAAP, the entirety of the 7.75% Convertible Subordinated Debentures has been classified as equity as the Company has the option to pay both interest and principal through the issuance of additional Subordinate Voting Shares. The related issue costs are allocated against equity.

Under U.S. GAAP, both debentures would be considered debt and their related issue costs would be deferred and amortized over the term of the debt. Interest expense would consist of the coupon rates of interest of 7% and 7.75% and the unrealized foreign currency gains or losses arising from the translation of the debt would be included in income as they arise. The impact on net loss for year ended December 31, 2001, 2000 and 1999, and on shareholders' equity as at December 31, 2001 and 2000, under U.S. GAAP has been determined as follows:

<i>For the years ended December 31,</i>	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Additional interest expense</i>	<b>(29,390)</b>	<b>(24,166)</b>	<b>(4,222)</b>
<i>Amortization of additional deferred financing costs</i>	<b>(1,888)</b>	<b>(1,738)</b>	<b>(953)</b>
<i>Foreign currency translation gain (loss)</i>	<b>5,569</b>	<b>3,806</b>	<b>(4,560)</b>
<i>Impact on net loss</i>	<b>(25,709)</b>	<b>(22,098)</b>	<b>(9,735)</b>
<i>Prior year's impact on net loss</i>	<b>(31,840)</b>	<b>(9,735)</b>	
<i>Interest paid in shares on convertible debenture charged to deficit</i>	<b>23,288</b>	<b>11,663</b>	
<i>Accretion of equity component of convertible debentures charged to deficit</i>	<b>34,673</b>	<b>17,737</b>	
<i>Equity component of convertible debentures</i>	<b>(405,195)</b>	<b>(388,259)</b>	
<i>Impact on shareholders' equity (end of year)</i>	<b>(404,783)</b>	<b>(390,692)</b>	

**[d] Stock-based compensation**

The Company measures its stock-based awards using the method prescribed by APB 25 for U.S. GAAP purposes. Under this method, any compensation expense relating to the Company's stock options plans would have to be reflected over the vesting periods of these options. Options granted under variable plans require that the excess, if any, of the estimated fair market value of the shares over the exercise price of the option be recorded as compensation expense over the vesting period, whereas no such compensation is recorded under Canadian GAAP. In 2000 and 2001, as indicated in Note 7, the Company reserved, for the benefit of certain individuals, options to be granted within the following 12 months. These reserved options are considered to be granted under a variable plan for accounting purposes, however, no compensation expense has resulted to date.

**[e] Supplementary information for U.S. GAAP purposes on stock-based compensation**

Pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001: risk-free interest rates of 5.0% [6.5%-2000]; dividend yields of 0.0% [0.0%-2000]; volatility factors of the expected market price of the Company's common stock of 40% [68.5%-2000], and a weighted-average expected life of the options of 5 years.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because change in the subjective input assumptions can materially effect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. On a pro-forma basis, the Company's net loss under U.S. GAAP would be decreased (increased) by \$0.7 million, (\$5.4) million and (\$3.8) million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company's pro forma net loss per share would decrease (increase) by \$0.04, (\$0.35) and (\$0.30) for the years ended December 31, 2001, 2000 and 1999, respectively.

**[f] FAS 130 "Comprehensive Income"**

U.S. GAAP establishes standards for reporting and display of comprehensive income (loss) and its components. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Under U.S. GAAP, all components of comprehensive income must be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income shall be displayed in the financial statements where the components of other comprehensive income are reported.

<i>For the years ended December 31,</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>
<b>Net loss under U.S. GAAP</b>	<b>(319,937)</b>	<b>(377,454)</b>	<b>(164,537)</b>
Foreign currency translation adjustment	<b>43,198</b>	<b>(51,511)</b>	<b>(85,774)</b>
Cumulative effect of change in accounting principle for derivatives and hedging activities	<b>(1,318)</b>	-	-
Change in fair value of derivative financial instruments	<b>(5,443)</b>	-	-
<b>Comprehensive loss under U.S. GAAP</b>	<b>(283,500)</b>	<b>(428,965)</b>	<b>(250,311)</b>

**[g] Accounting for derivative instruments and hedging activities**

Effective January 1, 2001, the Company adopted FAS 133, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company's policy is to manage interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount; the Company also manages its foreign currency exposure through hedging contracts. In accordance with SFAS 133, hedges related to anticipated transactions are designated and documented at the inception of the respective hedge as cash flow

hedges and evaluated for effectiveness quarterly. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. All of the Company's derivatives that are designated as hedges at December 31, 2001 are designated as cash flow hedges.

As disclosed in Note 7, MobiFon has hedged its variable-rate debt, which matures in 2006, by entering into an interest rate swap in which MobiFon has agreed to exchange, at specified intervals, the difference between fixed and variable interest on its \$230.8 million of variable rate debt until April 2002. This swap, which was entered into as a result of an agreement with MobiFon's lenders, has a fair value of (\$2.8) million as at December 31, 2001, and was designated as a cash flow hedge of the underlying variable-rate interest payments. Since the Company's assessment of the hedging relationship revealed immaterial ineffectiveness, the entire unrealized loss, net of tax and minority interest, was recorded in Accumulated Other Comprehensive Income within Shareholders' Equity. Additionally, as further described in Note 7, Český Mobil has hedged a portion of its variable-rate Euro based debt, which matures in 2006, by entering into a cross currency interest swap in which Český Mobil has agreed to exchange, at specified intervals, the difference between fixed and variable interest on Euro 116.3 million and 3.0 billion Koruna of variable rate debt until November 2005. Additionally, this swap has fixed the foreign currency rates on these interest payments from the Euro to Koruna. This cross currency swap was designated as a cash flow hedge of the underlying variable-rate foreign currency interest payments. Since the Company's assessment of the hedging relationship revealed no ineffectiveness, the entire unrealized loss, net of tax and minority interest, was recorded in Accumulated Other Comprehensive Income within Shareholders' Equity.

For the year ended December 31, 2001, the change in the fair value of the Company's interest rate swap and foreign currency cash flow hedges totalled \$30.8 million, of which \$9.5 million was reflected in income against the change in carrying value of the related hedged foreign currency debt; the effect on comprehensive income, after accounting for minority interest share of these changes, is \$6.8 million including a cumulative effect adjustment of approximately \$1.3 million as of January 1, 2001. \$2.8 million of the unrealized loss relates to interest rate swaps, which expire in April 2002 and, as such, has been included in other accrued liabilities. The remaining unrealized losses, are included in long-term liabilities.

A rollforward of the other comprehensive income related to these hedges is provided below:

<i>For the year ended December 31, 2001</i>	<i>MobiFon</i>	<i>Český Mobil</i>	<i>Total</i>
	\$	\$	\$
<i>Cumulative effect of adopting Statement 133</i>	1,318	-	1,318
<i>Net change in derivative fair value during the period</i>	453	4,990	5,443
<i>Other comprehensive income balance (end of year)</i>	1,771	4,990	6,761

#### **[h] Units**

The Units issued on February 14, 2001 are accounted for as equity under Canadian GAAP because of the existence of contingency as to the ultimate method of settlement, which is outside of the control of both the company and the individual holders of such units. Under U.S. GAAP, the Units are considered to be a hybrid instrument which has embedded equity and debt components. Such instruments are treated as debt under U.S. GAAP.



### ***[i] Gain on forgiveness of debt***

Under Canadian GAAP, the gain on the debt exchange was determined as the difference between the accreted value of the original debt net of unamortized deferred costs less the face value of the new debt and the cash payment of \$50.0 million. Under U.S. GAAP, all future cash payments including interest and contingent additional payments relative to the 14% Notes specified by the terms are netted against the realized gain on forgiveness of debt. Thereafter, all cash payments under the terms of the 14% Notes will be accounted for as reductions of the carrying amount of the 14% Notes and no interest expense will be recognized on the 14% Notes for any period between the restructuring and maturity of the New Notes.

The gain on forgiveness of debt is an extraordinary item under U.S. GAAP and is excluded from the results of continuing operations.

### ***[ii] Discontinued operations***

Commencing January 1, 2002, the Company was required to adopt FASB Statement No. 144, Accounting for the impairment or disposal of Long Lived Asset ("FAS144"). Under FAS 144, the discontinued operations of Brazilian joint ventures must continue to be reported as continuing operations until the financial statements encompassing the date the decision to dispose of the operations are issued. Additionally, future operations losses will not be recognized on these discontinued operations until they occur, and the investment will be measured at the lower of its carrying amount or fair value less costs to sell. The decision to dispose of the remaining Brazilian joint ventures occurred on March 5, 2002. Under Canadian GAAP, these operations are presented as discontinued operations for the year ended December 31, 2001 based on this subsequent event. Consequently, results from the Company's operations in Brazil have been reclassified from loss from discontinued operations to loss from continuing operations for 2001, 2000 and 1999. In 2001, the estimated loss of operations from the measurement date to the date of disposal including the loss resulting for the partial realization on the cumulative translation adjustment were reversed under U.S. GAAP.

### ***COMPARATIVE FIGURES***

Certain comparative figures were reclassified to conform to the presentation adopted in 2001.

### ***SUBSEQUENT EVENTS***

#### ***Recapitalization plan***

Between January 1, 2002 and March 13, 2002, the Company completed the following several transactions contemplated by the Agreement referred to in Note 7.

#### ***7% Equity Subordinated Debentures***

On February 5, 2002, the Company completed an issuer bid to acquire the Cdn\$150 million 7% Equity Subordinate Debentures ("ESD"). Pursuant to a purchase offer and consent request, the Company has paid Cdn\$6.8 million and has issued 2.5 million warrants, each entitling the holder to purchase one Subordinate Voting Share at a price of Cdn\$1.61 at any time before March 31, 2003, to ESD holders who elected Cdn\$300 in cash and 109 warrants for each Cdn\$1000 in principal amount, including accrued and unpaid interest ("Cash Offer"). The Company also issued approximately 37.7 million Subordinate Voting Shares and approximately 3.7 million warrants, each entitling the holder to purchase one Subordinate Voting Share at a price of Cdn\$1.61 at any time before September 30, 2002, to ESD holders who elected 308 Subordinate Voting Shares and 30 warrants for each Cdn\$1000 in principal amount, including accrued and unpaid interest ("Share Offer").

The Company amended the ESDs to, among other things, extend the maturity of ESDs to December 2006, reduce the principal amount of each ESD to Cdn\$250, delay the next interest payment date to June 30, 2002, provide for the right of the Company to convert the ESDs at maturity into Subordinate Voting Shares at a price equal to the greater of Cdn\$1.00 and the then current market price of the Subordinate Voting Shares and provide for the optional conversion at maturity by holders of the ESDs into Subordinate Voting Shares at a price of Cdn\$4.40. The Company paid approximately Cdn\$0.1 million to ESD holders who consented to the proposed amendments but did not elect either the Share Offer or Cash Offer. The Company has amended and reduced the remaining outstanding principal of an aggregate of approximately Cdn\$5.0 million in principal amount of ESDs to an aggregate of approximately Cdn\$1.25 million in principal amount.

#### **7.75% Convertible Debentures**

The Company has converted 100% of the \$300 million in principal amount of 7.75% Convertible Debentures and the accrued and unpaid interest of \$11.6 million due September 2001, ("the CDs") for 154.5 million Subordinated Voting Shares. The Company has undertaken to issue warrants to certain holders to purchase up to a total of 15 million Subordinate Voting Shares at \$1.00 per share on or before September 30, 2002.

#### **Units Exchange and Equity Financing Commitments**

In connection with the Company's exchange offer to the holders of its outstanding Units and the financing commitments under the Agreement, the Company acquired 33.7 million Units and raised \$51.7 million in gross proceeds. This new financing is in addition to the December 14, 2001 issuance of 24.5 million Special Warrants for gross proceeds of \$15.0 million. In consideration for this new financing and the payments of Units tendered under the exchange offer, the Company has issued (a) an additional 269.2 million in aggregate of Subordinate Voting Shares and special warrants (b) 4.8 million warrants, each allowing the holder to purchase one Subordinate Voting Share at a price \$1.00 on or before March 31, 2003 and (c) 8.5 million warrants, each allowing the holder to purchase one Subordinate Voting Share at a price Cdn\$1.59 on or before March 31, 2003. This exchange has resulted in an increase in the Company's equity interest and voting rights in ClearWave from 45.5% and 80.7% respectively, to 85.6% and 94.9% respectively. In addition, since the Units are no longer subject to the deemed conversion feature [see Note 8] in accordance with a court judgement, rendered on February 4, 2002, the remaining Units will be presented within current liabilities for accounting purposes until their expiry on June 30, 2002 at which date they will be accounted for as non-controlling interest and a gain on disposal of ClearWave shares will be recorded in the event holders of the Units do not elect to exchange the Units for Subordinate Voting Shares.

On March 13, 2002, the remaining 35 million Special Warrants were converted into 35 million non-voting Preferred Shares for no additional consideration. Each non-voting Preferred Shares is convertible into Subordinate Voting Share at the holder's option on a one for one basis and rank pari-passu with the Subordinate Voting Shares.

As a result of the above transactions, as of February 28, 2002, the following represents all equity securities outstanding and the number of Subordinate Voting Shares into which all securities are convertible, exercisable or exchangeable:

	<i>Subordinate Voting Share</i>
<i>Subordinate Voting Shares outstanding</i>	467,171,780
<i>Preferred shares outstanding</i>	35,000,000
<i>Convertible instruments and other</i>	
<i>Outstanding granted employees and directors' stock options</i>	457,883
<i>Warrants</i>	34,490,983
<i>Units</i>	2,427,767
<i>Convertible Equity Subordinated Debentures</i>	284,091
	539,832,504

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELESYSTEM INTERNATIONAL WIRELESS INC.

A handwritten signature in cursive script, reading "Margriet Zwarts", is written over a horizontal line.

Name: Margriet Zwarts

Title: General Counsel and Secretary

Date: April \_\_, 2002